TASKFORCE

ON THE CHURCHES AND CORPORATE RESPONSIBILITY

1990 – 1991

ANNUAL REPORT

HUMAN RIGHTS · THIRD WORLD DEBT · MILITARY EXPORTS · SOUTH AFRICA · BRAZIL · PHILIPPINES · CANADA · BANKS · CORPORATIONS · INTERNATIONAL FINANCIAL INSTITUTIONS · ENVIRONMENT · MILITARY INDUSTRIES · CORPORATE GOVERNANCE · RESPONSIBLE INVESTMENT

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TASKFORCE ON THE CHURCHES
AND CORPORATE RESPONSIBILITY
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Additional copies of the *Annual Report* and a publications list are available from the Taskforce office.

INTRODUCTION

This *Annual Report* is written and edited over the summer. As the editing progresses new information and activity inevitably occur which might alter the text. In order to complete the report, events after July 31 are generally omitted, to be included in the 1991-1992 report.

History

The Taskforce on the Churches and Corporate Responsibility (TCCR) was founded in 1975 by national Christian churches and related religious orders and agencies in Canada.

TCCR is one of many coalitions through which the churches work together on social justice issues. The churches believe that all institutions, including the churches, must be confronted when their practices result in injustice, especially against the poor and the oppressed, and encouraged when they act responsibly.

The particular mandate of the Taskforce is to undertake research and action relating to the social and environmental impact of Canadian corporations, both public and private, and related government policies. This mandate reflects the fact that the churches, as shareholders in many companies, accept responsibility for the use of their investment capital. Over the years, TCCR has influenced Canadian corporate life in matters as diverse as withdrawal from South Africa, confidentiality of shareholder votes, environmental practices and respect for indigenous peoples' rights.

Appointed representatives of the member groups meet ten times per year. The work is carried out through a Plenary Board, an Executive and three sub-committees: Domestic Issues, International Issues, and Corporate Governance.

The Domestic and International Issues committees deal with issues of social justice and the environment in Canada and internationally. Action is determined by ecumenical agreement, and is based on information from partner churches and related groups representing those who have little voice with Canadian companies

or governments. The Corporate Governance committee deals with the structures and processes through which shareholders, other stakeholders and the public try to hold companies accountable. It also monitors and encourages the growing social investment movement in Canada.

The Taskforce's credibility results in hundreds of telephone and mail enquiries annually from church people, the media, university students, investors and individuals who fit in no particular category. Its response to requests for speakers or programs is limited by available staff and board time. Speaking engagements which were undertaken by Board or staff members on behalf of the Taskforce included: moderating a panel on debt and the environment sponsored by the Jesuit Centre; an address to the Global Awareness Group of the University of Toronto in regard to international debt, the Export Development Corporation and banking; an address to the Rotary Club of Toronto Eglinton on corporate responsibility, shareholder responsibility and the environment; an address to the Ontario Professional Foresters Association on corporate responsibility and the environment; two addresses to a conference organized by the Social Investment Organization on the subject, "Investing in the Environment"; a presentation to the Treasurers of Oblate Orders in Canada on the work of the Taskforce; a presentation to the Primate's Relief Fund of the Anglican Church on the same subject; and a presentation to the Missionary Orientation Conference sponsored by the Canadian Churches Forum for Global Ministries on the work of coalitions in general and the Taskforce in particular.

1990 - 1991

This period will be remembered as a time in which shrinking church budgets began to affect the financial resources of many coalitions, including the Taskforce. Regional consultations were held in eight parts of the country as the churches made an effort to look ecumenically at coalition work and priorities through the eyes of regional church people. Consultations affirmed the value of the work done by TCCR and other ecumenical coalitions and pressed for more social justice work. Efforts to help the churches clarify how work should be supported at a time of diminishing budget proved to be inconclusive. Preparation for these consultations and attendance at planning meetings and interchurch discussions were very time-consuming. The end result of the exercise is that the

Taskforce will have to live with a reduced budget from church sources.

The year was one of staff transition. Bill Davis joined the staff on March 1, 1991, serving as Co-coordinator with Moira Hutchinson until her departure on June 30th. During the autumn and winter, Peter Chapman continued on a part-time contract to work particularly on forest land management and militarism. Peter's contract has been extended to June 30th, 1992, at which time it seems likely there will be inadequate budget to continue part-time contract work. The day to day work of the Taskforce has been kept running smoothly by Grace Brubacher, the Administrative Assistant, and May Bothwell, who provides part-time clerical assistance as needed.

The report would be incomplete without a tribute to Moira Hutchinson who has served the churches with distinction for so long. She joined the staff as "Associate for Research" in 1981 and became Coordinator in 1986. Even though her decision to relinquish her responsibilities was not a surprise, it will be difficult to think of TCCR without her. As she leaves, she has earned the appreciation and admiration of many colleagues. She has maintained the Taskforce's reputation for solid research, effective action and a thirst for justice. In so doing, she has expanded and enhanced her reputation as a well motivated, solid, effective servant of her God and an inspiring leader. We will miss her greatly. We wish her well.

From time to time, individuals volunteer their particular gifts to help in the Taskforce's work. Linda Marshall completed the review and revision of the Ethical Mutual Funds pamphlet early in 1991. Ann Abraham, a former Board member, continues to provide helpful assistance in the preparation of the *Annual Report*.

UNCED

During the year plans began to take shape around the world for a major United Nations Conference on the Environment and Development to be held in 1992 in Brazil. Because of the Taskforce's long experience with both subjects and with corporations, it has been asked to prepare a paper for that conference.

The paper is largely financed through the Canadian Council on International Co-operation. Peter Chapman has been engaged to

write the paper, and a steering committee of four Board members has been appointed to assist.

The process involved applying for the grant, negotiating acceptable terms of reference, submitting a brief outline by June 1, 1991, circulating the final paper throughout an electronic network used by environmental and development groups by July 1, 1991, revising the paper in the light of comments received by September 30, 1991, and submitting it to the conference. In this work the Taskforce has drawn upon experience with forestry codes of conduct, with resource development companies and overseas partners. A working session heard and discussed presentations by David Hallman, Chair of Domestic Issues Committee and Tim Ryan, a former Chair of TCCR, in preparation for the paper.

The paper as prepared for July 1 dissemination electronically, is also being sent through the bi-monthly *TCCR Mailing* to regular subscribers to elicit their comments. Final copies will be available from TCCR in due course.

The Future

It becomes increasingly clear that there are close parallels between international and domestic issues. The decisions that surround the struggle of the Lubicon Lake Indian Nation to protect its way of life and establish its own reserve, when the government has issued timber licenses to pulp and paper companies, is parallel to the struggle of some native groups in the Amazon. The Quebec Hydro proposed development of dams in Northern Quebec impacts the Cree and the Inuit in much the same way as the Balbina Dam in Brazil has had an impact on the way of life of the Waimiri-Atroari Indians in that country. There is clearly an increased concern in the Church and in society about the environment. The Taskforce has responded with its own focus on the environment, particularly forestry. It is clear that the environment crosses the boundaries between the Domestic Issues and the International Issues committees.

The future thus holds the possibility of some re-structuring to respond to both a changing focus and diminished resources. It will not be easy to cut back in any aspect of the work because all is seen as important and, in fact, new areas continue to emerge. The Taskforce will try to work as efficiently and effectively as possible to make the best use of its resources. It is a challenging time to be a part of the churches' social justice work.

Those interested in the work of the Taskforce may wish to subscribe to the *TCCR Mailing*. For twenty-five dollars per year (thirty dollars for institutions and overseas mailing) subscribers receive six mailings per year, plus the *Annual Report*. Mailings include reports of company annual meetings attended by the Taskforce, church shareholder proposals, briefs to government and occasional papers and clippings related to issues of corporate responsibility and responsible investment.

August 1, 1991

I. THIRD WORLD DEBT

During the year, Third World debt and the burden it imposes on the poor remained a heavy focus on the Taskforce's agenda. The following pages outline only the work in which the Taskforce was involved. Other coalitions, notably, Ten Days, the Economical Coalition on Economic Justice, the Inter-Church Committee on Human Rights in Latin America and the Inter-Church Coalition on Africa, have all been engaged in their own programs with aspects of this issue. The Canadian chartered banks are small but influential participants in the search for solutions. However, the most important participant continues to be the Canadian Government through its own decisions about the debt that it holds itself and through its participation in international financial institutions.

A. CANADIAN GOVERNMENT POLICIES

Standing Committee on External Affairs and International Trade

Last year's *Annual Report* outlined some of the recommendations from the Standing Committee on External Affairs and International Trade report, "Securing our Global Future: Canada's Stake in the Unfinished Business of Third World Debt". The churches and the Taskforce were encouraged by the report and supportive letters were sent to appropriate government members.

In writing to the Minister of Finance, the Taskforce noted the Standing Committee's special concern for the poorest of countries which have Export Development Corporation (EDC) loans. These are largely in sub-Saharan Africa where the committee places the EDC's exposure at about $600 million, out of $2.4 billion that is owed by indebted developing countries. Churches had already urged government to instruct the EDC to write-down the debt of sub-Saharan Africa or at the very least to re-schedule it for a long period of time at a minimal interest rate. The Taskforce urged the acceptance and implementation of the Standing Committee's recommendation that "Canada take the lead in advocating the

adoption by the Paris Club members of substantial additional export debt concessions, in particular, for the poorest and most seriously affected countries". The letter also commended various initiatives taken by the Commonwealth Finance Ministers in September. It went on to deal with the recommendation of the SCEAIT report that a realistic accounting of sovereign loans is required in order to make good policy. This recommendation has grown out of the views of the Auditor General that the EDC was unrealistic in anticipating full repayment of sovereign loans where ultimate collectibility has become an unreasonable expectation. The Taskforce also supported the SCEAIT recommendation that the government table annually in Parliament a complete statement of all Canadian official debt exposure in developing countries including the details of any action taken by the government to reduce the burden of debt during that year.

The government responded to the committee's report in November 1990. For many recommendations the government response was to indicate that it shared the committee's concern and point to a number of ways in which it felt it was already dealing with the concern. While recommendations were neither directly rejected, nor accepted, little by way of new initiative resulted. Of interest to the Taskforce were the responses to two recommendations. The government flatly rejected the recommendation that chartered banks should be able to claim an additional loss based on the difference between the amount already claimed and the total loss, only when Third World assets are written down or sold in ways which reduce the burden on the debtor countries. The recommendation that the government should establish a high level advisory taskforce on international debt and adjustment to include representatives from government, business and non-government organizations, academia, and the Third World, was met with the promise of a seminar where such people could exchange views and information and inform Canadians about the impact of debt on many developing countries.

Sister Helen Leeney, a member of the Taskforce representing the Grey Sisters of the Immaculate Conception attended the SCEAIT Roundtable where church and NGO representatives met with government representatives to discuss the government's response. Among those who participated in the discussion were Ms. Jeanne Moffat, a staff person of the Ten Days for World Development Coalition and Dr. Roy Culpeper of the North-South Institute, both of whom have worked with the Taskforce on issues related to debt.

The responses of the Taskforce to the government proposal for a seminar has been to press for implementation. In the spring, Taskforce Board and staff representatives had an informal meeting with a professor from the University of Toronto, a representative of the North South Institute, vice presidents of three chartered banks with particular responsibilities for international lending, a representative of the Canadian Council on International Co-operation and a representative of the Inter-Church Coalition on Africa, to explore areas in which further actions could be taken on debt and particularly government and EDC loans. The meeting was timely, following shortly after significant debt restructuring for Poland undertaken by the U.S. Treasury. The participants agreed to send a joint letter to the External Affairs Minister indicating that the multi-sectors' seminar, proposed in November 1990 by the government, is urgently needed and suggesting the following topics for the agenda:

1. Official debt strategies for responding to the problems of severely indebted middle income countries, in light of the recent agreement on Poland's debt.
2. Official debt strategies for responding to the problems of severely indebted low income countries, given the scepticism of some that even Trinidad Tobago terms would be sufficient.
3. Ways in which the structures and policies of the IMF, the World Bank and regional development banks could be reformed to better respond to current needs; the means by which the Canadian government could initiate discussions leading to reform; and the means by which the "transparency" of the operations of these institutions could be improved so as to improve accountability to the Canadian parliament and public.
4. The implications of new provisions in the budget for including debt forgiveness as part of Official Development Assistance.

In March 1991, the Standing Committee took an extraordinary step when it responded to the government's response in a document entitled *Unanswered Questions/Uncertain Hopes*. The Taskforce minutes (April meeting) describe the SCEAIT response as "encouragingly forthright".

Canadian and World Financial Institutions

As one looks at the international debt problem, one becomes aware of the complexity of the structures designed to facilitate trade, development, credit and aid. Agencies and institutions are established, both national and international, each with its own particular goals and each having impact on the debt question. A brief overview of some of the more prominent agencies may be helpful.

The "Export Development Corporation" is an instrument of the Canadian government and the government is responsible for the policies which govern its operations. The corporation attempts to facilitate trade through insurance for exporters and investors, through loans to enable foreign buyers to purchase Canadian goods and services, and through the guaranteeing of loans made by banks. It has two sections. Its Corporate Account which is its largest, involves loans where it makes the decision itself and its Canada Account, where because of risk or size, loans are referred to the Minister for International Trade. Virtually all of the loans made by the EDC are sovereign debt, i.e. loans to governments of other countries.

The "Paris Club" is a meeting of western creditor nations which attempts to deal with the restructuring of government and government-guaranteed loans. It meets eight times a year for roughly a week each time. Debtor and creditor country representatives attend, as well as observers from the International Monetary Fund and the World Bank. It is a forum for negotiation, working out terms and conditions with agreement by consensus. In general terms, debtor countries initiate the discussion and creditor countries come with negotiating positions.

The "London Club" is a gathering of commercial banks in which smaller banks are represented by larger banks. In its consideration of debt re-structuring for countries experiencing payment difficulties, it requires a significant majority to be in agreement before any change occurs. London Club is heavily influenced by International Monetary Fund policies.

The term "G7" describes seven countries, Canada, France Germany, Great Britain, Italy, Japan and the United States, whose heads of state meet regularly for an economic summit. Frequently, the summit will issue statements which become important guidelines and they will be referred to as the Toronto terms, or the Houston terms, the reference being to the location of the particular meeting.

The "International Monetary Fund" and the "World Bank" are two large inter-governmental agencies which develop policies and make loans. In each organization the Canadian government has membership and a vote. Voting is weighted according to the amount of capital each country provides. Hence Canada's vote is not significant in weight, but its influence remains important. In dealing with the Canadian government, the Taskforce has tried to recognise the importance of these international organizations and to encourage the government to take a leadership role in pursuing policies that are equitable and just.

During the year, the Taskforce corresponded with the Export Development Corporation and with the Minister responsible for its administration. The Corporation is reluctant to release information about sovereign loans, regarding much of it as confidential. It has reported in its financial statements as if its non-current sovereign debt would be fully repaid, and this has been challenged by the Auditor General. The SCEAIT report also suggested that it was time to recognise some of the EDC loans as unlikely to be repaid. This SCEAIT recommendation appears to be accepted by the government and the EDC will, in future reports, make some assessment of the collectibility of outstanding sovereign debt.

The Taskforce continued to press for information about the countries to which loans were outstanding and to urge that some forgiveness or easing of terms be considered by the EDC. Attempts to investigate outstanding loans through the access of information channels proved fruitless because the Corporation is exempt from these provisions. The Corporation did indicate to the Taskforce that "it continued to explore realistic, pragmatic, and actionable solutions to the problem." It went on to report on proposals to remove the ten year ceiling which applies for repayment of most official export credit agency loans "in favour of repayment terms which more closely reflect the revenue-generation stream of the goods or projects being financed". The lengthening of the term of a loan would more fairly match the revenues and repayments. The Corporation also is suggesting some restructuring of principal and interest repayments on debt being re-scheduled through the Paris Club. Under its current ten year repayment schedule, the country may not be required to make payments in the first five years, resulting in a severe shock when payments begin in the sixth year. A more evenly structured or more flexible scheduling of principal and interest payments are two solutions which could benefit all parties. Further, the Corporation provided two schedules not previously available: showing "Financing, Guarantees, Confirmed

Lines of Credit, Low Income Countries 1961 to December 31, 1990" for both its Corporate Account and its Canada Account.

During the year, two representatives of the World Bank visited with Fr. Dan Gennarelli, the Chair of the International Issues Committee, and Bill Davis of the staff and described the work of the Bank. A representative of our sister coalition, Ten Days for World Development, also attended. The Taskforce drew upon experience in Brazil with financing of dams and pressed for better ways of recognizing and consulting indigenous people and for more transparency in the Bank's operations.

The normal approval process for a World Bank loan takes two to three years. The approach is normally made by a country seeking a loan. It is necessary to make an intervention early in the process if one is to influence the conditions surrounding any given loan. There are two problems: the first is how to influence the overall criteria used by the Bank and, the second is how to influence a specific project. The Bank made information available to the Taskforce in regard to the criteria being applied, particularly in regard to the environment. It was encouraging to note a progress report focusing on women and development, and a goal that the Bank should have 40% of its funding directed in a way that will recognise women in development as a priority. Since this initiative is in keeping with the Canadian churches' participation in the Decade in Solidarity with Women, the Taskforce encouraged it.

There is no doubt, in regard to international debt, that it is the northern industrialized nations who hold the most votes and who make decisions. Indeed, meetings of the G7 where the south is totally absent appear to carry increasing weight in international debt decisions. This is a disturbing trend. In World Bank or International Monetary Fund discussions, the South is at least "at the table".

B. CANADIAN CHARTERED BANKS

In recent years the international debt question has been superseded in the eyes of shareholders, investors and the business press, by concerns about debt arising from leveraged buyouts or from real estate loans where property values have declined significantly. Those chartered banks with loans outstanding to what are known as less developed countries (LDCs) have significantly reduced their vulnerability should the loans prove uncollectible. This has been done over the years by firstly, recognising the potential losses and reserving against them, and secondly, disposing of them through

write-offs, sales, collection or debt swaps. Despite the diminished concern about LDC debt as the risks to shareholders and profits has reduced, the banks are still holders of significant Third World debt. Churches recognise that governments and international financial institutions are the major players and the place where most concern should be directed. However, the churches agreed that the debt question should not be allowed to slide from the agenda of the chartered banks or from public attention simply because the banks' losses were largely behind them. Indeed, that the banks have recognised the losses, with the resulting reductions in profits and taxes, should allow more flexibility in disposing of loans that are still held on the banks' accounts.

For these reasons, the churches decided to file shareholder resolutions related to international debt with the three major debt holders among the chartered banks - the Bank of Montreal, the Bank of Nova Scotia and the Royal Bank of Canada.

Identical resolutions were filed with each bank. The resolutions focused on a recommendation of the Standing Committee on External Affairs and Internal Trade. The resolution had a number of "whereas" clauses referring to the SCEAIT report, quoting its description of the debt problem and its severe implications, noting the banks flexibility in dealing with debt because of the extent of the loan loss provisions already in place, and noting that reserving against debt, while it protects the bank and its shareholders, does not in itself do anything for the debtor countries. In addition, the "whereas" clauses noted the Standing Committee's comment that the Canadian government should be more active in promoting commercial debt relief that benefits Third World people.

The actual resolution called on shareholders to request the Board of Directors to indicate agreement with the principle that any further tax relief to the Canadian chartered banks on reserves against problem sovereign debt exposure, should be in the form of incentives which encourage reductions in principal and in interest rates, on outstanding debt of nations which are crippled by a heavy debt problem. The resolution also contained a supporting statement which referred to the specific suggestion of the Standing Committee allowing banks to claim additional tax losses equal to the difference between the 45% level already claimed and the amount of discounts, only when Third World loan assets are written down or sold in ways that reduce the burden on debtor countries. To the disappointment of church filers, all three banks indicated that they were not prepared to circulate the proposal. In each case this led to a management meeting and discussion about shareholder

right and the importance of the international debt question. Ultimately, the churches concluded that, despite the importance of the corporate governance issue of a shareholder's right to file a resolution and the narrow interpretation of the Bank Act being followed by the three banks, the important issue at this time was in fact the debt question and not the shareholder rights question. For this reason, the churches agreed to withdraw the proposal and to opt instead for particular arrangements with each bank individually to place international debt on the agenda of the annual meeting and before the widest possible shareholder audience.

Bank of Montreal

Discussion with the management of the Bank of Montreal was wide ranging.

In the fall of 1990 the Canadian Conference of Catholic Bishops and the Sisters of Saint Anne filed identical shareholder proposals with the Bank of Montreal. The Bank refused to circulate their proposals and reference is made to this concern in the Corporate Governance Section of this *Annual Report* (see page 62).

Representatives of the churches then met with officers of the Bank. Representing the churches were Sr. Yvette Bellerose and Sr. Kathleen Cyr of the Sisters of St. Anne, Sr. Janis Mary of the Sisters of St. John the Divine, Mr. Joe Mihevic of the Canadian Conference of Catholic Bishops, Mr. Bill Davis of the United Church of Canada, and Ms. Moira Hutchinson of the Taskforce.

Considerable attention was directed to the Bank's refusal to accept a shareholder proposal. The Bank reiterated its analysis of the so-called Brady Plan as well intentioned but seriously flawed. The Plan focuses too much on commercial banks and not on creditor governments or international financial institutions. Debtor countries have to be dealt with on a case by case basis. All do not have the same ability to pay. Some make wise decisions and others are less responsible. Further, the Plan ignores the fact that governments and international financial institutions hold more than half of the debt of middle income countries and the majority of the debt of low income countries. Hence the commercial banks cannot be seen as the only solution.

The Bank provided information about write-offs it has already taken in some countries. The changing situation in Europe has placed a focus on Poland. The Bank expressed the opinion that it is a country deserving relief. Almost 80% of Poland's debt is owed

to the official sectors, including Canada. While the Bank is willing to play a part in helping Poland, clearly government must take a lead.

For the Bank, 92% of its exposure to countries at risk is concentrated in Mexico, Brazil, Venezuela and Argentina. The Bank also pointed out that the debt problem is exacerbated by western countries running large deficits. When the United States of America is drawing capital from around the world, it deprives the developing world of much needed capital for growth. It also forces up world interest rates and makes existing credit expensive. The Bank reiterated its opposition to the IMF's belt-tightening ideas, and stated its intention to remain in the international lending area and see developing countries through to creditworthiness.

Annual Meeting

On January 14, 1991, representatives of the churches took part in the question period of the Bank of Montreal's annual meeting. Matthew Barrett, Chief Executive Officer of the Bank, introduced Sr. Kathleen Cyr. In his introduction he spoke of the high value which the Bank places on its annual meetings with the Taskforce and of the challenge of LDC debt. In her presentation, Sr. Cyr expressed regrets at the refusal of the Bank to circulate a shareholder proposal and expressed the hope that the Bank's review would be such that, in future, a proposal of this kind might be considered by all shareholders. Sr. Cyr made reference to the SCEAIT report quoting from it and pointing to some of its conclusions and recommendations. She countered the Bank's arguments about significant debt relief already accomplished by referring to countries that are not addressed by the Brady Plan, indicating what has happened to them. She pointed out that new lending as envisaged by the Brady Plan has not occurred and to the fact that a net transfer of funds from impoverished nations to the developed world continues. Sr. Cyr went on to deal with the specific proposal from the SCEAIT, in regard to relating additional tax losses claimed by the Banks, to actual discounts, sales or write-downs which would benefit debtor countries. She pressed the Bank to provide shareholders with an analysis of the SCEAIT proposal and an overview of how debt problems and the plight of the poor in the Third World should be addressed.

In his response, Mr. Barrett accepted the seriousness of the debt question. He outlined specific debt relief provided by the Bank of Montreal in 1990 in Mexico and Costa Rica. He suggested that

these write-offs were not dependent on tax incentives and that they implied significant after tax losses to shareholders regardless of the tax regime in place. He reiterated the Bank's position that more attention needs to be paid to official debt, that is, money owed by the Third World countries to governments in the developed world and to the international financial institutions. He reminded shareholders that for low income countries the debt is primarily "official debt" rather than being owed to the commercial banks.

A report of the discussion of international debt at the Bank of Montreal's Annual Meeting of Shareholders, Toronto, January 14, 1991, 4 pages, is available from the Taskforce.

Bank of Nova Scotia

In the fall of 1990, the Anglican Church of Canada, the Jesuit Fathers of Upper Canada, and the Sisters of Charity of Mt. St. Vincent in Halifax filed identical shareholder proposals with the Bank of Nova Scotia. The Bank refused to circulate the proposals and reference is made to this concern in the Corporate Governance Section of this *Annual Report* (see page 62).

Representatives of the churches then met with officers of the Bank. Representing the churches were Fr. Dan Gennarelli, Scarboro Foreign Mission, Rev. Peter Hamel, the Anglican Church, Fr. Ed Sheridan, Jesuit Fathers of Upper Canada, Mr. Ken Ward, United Church of Canada, Ms. Moira Hutchinson of the Taskforce. Discussions ranged over a number of aspects of the international debt question.

The Bank offered the opinion that there had been some progress during the year 1990 citing Mexico, Costa Rica, Uruguay and the Philippines as examples. The Bank distinguished between the chartered banks' contribution to international debt reduction and that of the international financial institutions who continued to be net recipients of money rather than suppliers. The Bank also noted some leadership by Canada in the progress that has been made in dealing with the poorest of the poor at the Toronto Summit.

In discussing the church shareholder proposal which was based on a part of the SCEAIT report, the Bank cited problems with the lack of specifics and challenged the assumption implicit in the churches' material that sales on the secondary market are not a benefit to the debtor countries. The three types of sales which may occur on the secondary market are country buybacks, investor purchase and

trading of debt. In each situation, if the lender accepts a discounted face value the Bank suggested a benefit is going to accrue to the borrower. Church representatives felt that the only ultimate relief comes when the debtor country actually buys its own debt at a discount, and wondered about the amount taken by agents in the transaction. The Bank suggested that third parties may take a percentage on the way through, but nevertheless, relief is provided and it is not practical to follow-up on every step of a transaction.

The Bank discussed specific situations in various countries contrasting those which do not deal in good faith with the IMF, with others who have addressed problems and are on the right path. Particular attention was payed to Poland where 75% of the debt is owed to governments and only 25% to banks. Governments have problems in accepting losses in countries which are not classified as LDCs.

The Bank reiterated its conviction that each particular country has to be examined in its own right. The Bank itself would likely adopt a different posture for a country with whom it has a long relationship and in which it maintains operations.

Annual Meeting

The meeting was attended by Sister Thérèse Moore of the Sisters of Charity of St. Vincent de Paul. After regretting the refusal by the Bank to circulate the shareholder proposal, she spoke briefly to the international debt situation and to the SCEAIT proposal. The churches supported the SCEAIT recommendation tying further tax relief for the banks to the actual writing-down or sale of Third World loans, in ways which would reduce the burden on the debtor countries. Sr. Moore quoted from the Standing Committee report and outlined the deteriorating situations in many Third World countries, asking the Bank to provide shareholders with an analysis of the proposal and an overview of ways of resolving the debt problems to prevent further erosion in the position of the poor in the Third World. The statement was warmly received by shareholders with some applause. Following the meeting, Sr. Moore was interviewed on the CBC.

Mr. Cedric Ritchie, Chief Executive Officer of the Bank, responded. His response reminded shareholders of the Bank's consistent advocation of negotiated reductions wherever there is a need demonstrated, where countries are prepared to adopt economic reforms and where it was in the interest of shareholders to do so, and cited a number of examples of negotiated agreements.

He focused on problems created by the attitude of a country like Brazil and contrasted these with improvements in Mexico, Chile and Trinidad. He also noted that governments are finally following the lead of commercial banks and starting to reduce their claims against borrowers which have had shown a willingness to put their countries in order.

Mr. Ritchie recognised that there were countries in which repayment is impossible. He noted that the majority of the debt of the "poorest of the poor" is owed to governments or government agencies and not to chartered banks. In some countries, Mr. Ritchie contended, the debt burden is not as much the problem as improper domestic policies.

Finally, Mr. Ritchie challenged the SCEAIT recommendation in regard to tax relief, quoting from the government's refusal to change the tax code to skew tax relief in a way which would run counter to the policy of tax neutrality.

The church statement and the Chairman's response were circulated with the minutes of the Bank's Annual Meeting.

A report of the discussion of international debt at the Bank of Nova Scotia's Annual Meeting of Shareholders, Halifax, January 15, 1991, 5 pages, is available from the Taskforce.

Royal Bank of Canada

In the fall, the Sisters of Charity of St. Vincent de Paul, the Canadian Conference of Catholic Bishops, the Anglican Church of Canada and the United Church of Canada submitted the same proposal to the Royal Bank, as other filers had submitted to the Bank of Montreal and the Bank of Nova Scotia. The Bank refused to circulate the proposal to shareholders. A full report of this matter is contained in the Corporate Governance Section of the *Annual Report* (see page 62). In October, representatives of Canadian Churches met with bank management to follow up on the question of international debt and the churches' proposals. Representing the churches were Mr. Bill Davis, United Church, Rev. Dr. Ray Hodgson, Presbyterian Church, Ms. Elsa Musa, the Anglican Church, Mr. David Pollock, the Anglican Church, Ms. Moira Hutchinson, the Taskforce.

The Bank felt that the SCEAIT committee had under-estimated the progress made through the Brady Plan and cited specific countries whose debt has been substantially lowered. Church

representatives countered that four countries addressed by the Brady Plan to date is only a small number, in relation to those in need of help. Bank representatives pointed out that the Brady plan is a longer program. After some further discussions, it was recognised that countries in Africa, for instance, are never likely to be a part of the Brady plan and that the governments of the world are the main creditors who will need to act. One cannot suggest the same solution for Brazil or Mexico as one would for sub-Saharan Africa.

The meeting discussed the particular recommendation on tax relief addressed in the church shareholder proposal relating further tax relief because of loan losses to particular circumstances of debt write-off. The Bank suggested that such an activity would not actually be an incentive but rather a breach of tax principles. There was discussion of what are known as pari-passu provisions. In essence, if one lender in a syndicate wants to make a concession all other lenders must agree. If the first lender acts unilaterally then the proceeds realised by a sale to a non-financial institution are divided between all of the creditors. These provisions are not applied in transactions under the Brady plan. There was a brief discussion of a proposal reported in the United Kingdom similar to the SCEAIT proposal but there was not sufficient information at hand to clarify the similarities and differences between the proposals.

Annual Meeting

The churches and the Bank prepared statements on international debt which were circulated to shareholders in advance of the meeting. Bill Davis of the United Church of Canada attended and spoke on behalf of the Anglican and United Churches, the Canadian Conference of Catholic Bishops and the Sisters of Charity. After a brief introduction expressing disappointment that the Bank was not willing to circulate the proposal and describing the Third World debtor as one of many stakeholders in the Bank, Mr. Davis presented the Third World debt situation in the context of an imaginary person living in the Third World and urged shareholders to think of her as their daughter or sister. Describing the circumstances of people like this young woman and recognising that one bank is not the whole picture nor is debt the only problem, he urged shareholders not to dismiss LDC debt as a solved problem, urged the Bank to be as generous as possible in moving quickly for the well-being of LDC stakeholders and urged other

shareholders to press the government to provide debt relief to the neediest countries.

In response, Mr. Allan Taylor, Chairman and Chief Executive Officer, pointed to the benefit of the Brady Plan in particular countries, committed the Bank to continue meeting with the churches about the debt problem and noted the importance of assistance from multi-lateral institutions and governments in dealing with the debt questions. In response to a shareholder question, the Chairman defended the Bank's action of not circulating the churches' proposal, indicating that discussions over the years between the churches and the Bank had been more constructive than would be a proposal.

A report of the discussion on international debt at the Royal Bank's Annual Meeting of Shareholders, Toronto, January 24, 1991, 6 pages, is available from the Taskforce.

Conclusion

Churches recognise that most shareholder activity in recent years has focused on those banks which have significant outstanding international debt. Clearly the main source of debt relief must be governments and international financial institutions and it is in this direction that most pressure should be applied.

However as some countries begin to approach creditworthiness there needs to be a focus on the future. Looking ahead, the churches are entering into discussions through the summer of 1991 with the largest chartered banks to examine criteria for international lending. Some American churches have been in contact with major American banks to discuss criteria for future international lending and there has been some common ground found. Hopefully, one of the next steps in the discussion will be related to the development of criteria under which banks, including those which have regarded Third World lending as "discontinued business", might be prepared to initiate further loans.

II. OTHER INTERNATIONAL ISSUES

A. SOUTHERN AFRICA

Focus of the Taskforce

Most of the Taskforce's work has focused on South Africa apart from some early work in Angola, Zimbabwe and Namibia. There is very little private sector interest in Africa as a continent. Changing circumstances in Eastern Europe have drawn attention to this part of the world. Investment is growing in Asia and in parts of Latin America. Hence there is little to report for the past year (apart from the extensive work on international debt), relating to a continent which the United Nations Economic Commission for Africa says is worse off today than it was in 1980.[1]

For many years, as Canadian corporations have withdrawn from South Africa and as the government has not only encouraged the withdrawal but committed itself to sanctions, there has been the expectation that the work of the Taskforce in this area would decline. Despite this expectation, a steady flow of enquiries and activity has continued. The work done a decade ago encouraging the Canadian chartered banks to terminate their lending, promoting the withdrawal of Canadian investment from South Africa, spearheading the churches' push for economic sanctions and being a key part of a large anti-apartheid movement in Canada and around the world, has given the Taskforce a high profile. In the 1989-90 *Annual Report*, the section on Southern Africa takes up twenty-two pages, almost one-quarter of the report. There is no doubt that 1990-91 was a year of unbelievable change in South Africa, a year in which the absence of any Canadian investment there coupled with other focuses and other church players, finally resulted in a lower level of activity for the Taskforce.

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[1] *Financial Post*, May 20, 1990.

This is not to suggest that there is no further work to do or that the churches have any less concern about bringing apartheid to an end. It is simply to indicate that changing circumstances result in changing priorities and therefore, the South Africa part of this report will be much shorter in comparison to prior years.

A Year of Progress - Yes, But

The changes described in the 1989-90 *Annual Report* continued into the current year. One becomes cautious in trying to describe them as progress because, for every positive step, there seemed to be an offsetting concern about its significance or about the government's real commitment. A recent publication of the United Nations' Centre Against Apartheid captured the flavour of the situation:

> In 1990, South Africa began a process of change that may lead to a negotiated end to apartheid and to the adoption of a new constitution.
>
> Some significant steps have been taken to foster a climate for negotiations and contacts between the ANC and the South African authorities have contributed to this end. A number of steps specified in the UN Declaration as necessary for establishing a climate conducive to negotiations, such as the lifting of bans on political organizations, the end of the state of emergency and the release of all political prisoners have already been implemented while the authorities have declared their intentions to remove some major institutional structures of the apartheid system.
>
> While a process is under way much more remains in place. The apartheid system has created a society besieged by massive problems and poverty and socio-economic injustice which need to be urgently addressed, in addition to the preparation of a constitution based on universal, non-racial suffrage.
>
> In addition, violence and repressive legislation pose a threat to the negotiating process. The continuing violence in certain areas of the country, some of it linked to groups opposed to the democratic transformation of the country, is an issue of serious concern. Yet the hope prevails that in the not-too-distant future,

South Africa shall become a united, non-racial and democratic society.[2]

The Southern African Research and Documentation Centre recently distributed two booklets aptly titled *Apartheid After Apartheid*. In the covering note, it used the analogy of apartheid as an onion-like structure. "If you peel off the outer layers of the de jure apartheid, as the government proposes to do by repealing apartheid laws, then you will find the deeper layers of the de facto apartheid". Our sister coalition, the Inter-Church Coalition on Africa (ICCAF) in its February briefing used the heading, "Apartheid - Down but Definitely Not Out".

In June 1991, the Taskforce received notice from the International Defence and Aid Fund for Southern Africa (IDAFSA) that they were moving their entire operation from London, England to the University of the Western Cape where they will establish a new historical and cultural centre. "The Centre will include a museum on apartheid and an archive on the South African liberation struggle." Organizations in South Africa will pick up IDAFSA's work.

YES, things are happening in South Africa, BUT much more needs to happen. As this report is being written, evidence has been made public, linking the South African government directly to the financing of some of the violence perpetrated by the Inkatha movement of homeland chief, Mangosuthu Buthelezi. It has long been suspected that the white government and its police force were by no means neutral parties in the so called "tribal violence" that has plagued all efforts to move toward a democratic society in South Africa (see 1989-90 *Annual Report*, pages 33-34). What this new evidence will mean for future progress is difficult to judge.

Sanctions

The question asked around the world in the early summer of 1990 concerned the appropriateness of lifting sanctions. The first thing that needs to be said about the question is that sanctions have been effective. Ever since the churches and others began to call for sanctions as a means to push for progressive change, there have

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[2] UN Centre Against Apartheid: *United Nations in the Forefront of the Struggle Against Apartheid.* Publication #40017, January 1991.

been sceptics insisting that the sanctions would hurt the very people they were intended to help. As it has taken steps to dismantle apartheid, the Southern African government has been very quick to seek a commitment to relax or lift various sanctions and, particularly, economic sanctions which have hurt their economy.

The South African Council of Churches has linked the lifting of sanctions to the time when the dismantling of apartheid is truly irreversible. Some of the signs of identifying that irreversible state are the following:

> A Constituent Assembly is constituted; sovereign power is removed from the existing apartheid legislative structures and invested in the Constituent Assembly or another agreed interim structure; the white minority cannot legally reverse or veto the process through the present unrepresentative legislative structures.

In November 1990 the Taskforce was invited to participate in a symposium on the current situation in South Africa sponsored by the Department of External Affairs. The Taskforce was represented by Ms. Renate Pratt, a former Coordinator and a person well-versed in both sanctions issues and South Africa. Throughout the year, the Canadian government has maintained its official support of sanctions. In the early summer, when European governments and the United States have made moves to relax sanctions because of the steps being taken in South Africa, the Canadian government, to its credit, has held firm, preferring to wait until the Commonwealth meeting.

Canadian churches have been guided by their South African colleagues. Because sanctions have been effective, they remain an important lever for the African National Congress and others working to end apartheid. Identifying the precise moment when sufficient change has occurred to justify the removal of sanctions is a delicate balancing act.

Throughout the early summer the Taskforce received numerous phone calls from media and business enquiring about the churches' position in regard to sanctions. We have indicated that we take our lead from Canadian churches who are informed by South African churches, and from key allies like the African National Congress. Consequently, we support the continuing of the sanctions until there is more clear evidence of irreversible change.

A more difficult question is what to do about businesses or associations who move to ignore or reverse the sanctions. There will be a time when change is to be rewarded by the easing of

sanctions, and our colleagues are struggling to identify that moment. Until they do, the Taskforce has been content to wait for clearer signals from the churches.

Canadian Corporations

Varity Corporation

In September 1990, a CBC television national news clip featured the removal of black squatter camps in South Africa by persons driving yellow industrial loaders marked MF. Varity Corporation, the only publicly listed Canadian company remaining in South Africa, is the manufacturer of Massey-Ferguson equipment. The Taskforce wrote to the federal government pointing out the flaws in the voluntary code of conduct that enable a Canadian company to be integrated into the structures of apartheid in this way, and reminding the government of its own ownership of 3.4% of Varity's common stock. A similar letter was sent to the Premier of the Province of Ontario. Despite being shareholders, neither government feels able to influence Varity.

At its shareholder meeting on July 30, 1991, Varity Corporation is planning to reincorporate in the state of Delaware. This move will further reduce the already scant leverage that the Canadian churches and the Canadian and the Province of Ontario governments have had. Indeed, it appears that the Ontario Government will be divesting itself of its shares because its holdings have not represented significant leverage.

Shell Canada

In November the Company sought an update on the churches' current positions on sanctions. This was provided at a subsequent meeting by Jim Kirkwood of the United Church and Moira Hutchinson of the Taskforce who represented the churches.

De Beers

De Beers, a large South African company, sought a meeting with the Taskforce when their representatives were in Canada. The meeting was declined.

Underwriters

The Ontario Government intends to continue its policy of not utilizing the services of firms which participate in new financing of the government of South Africa.

B. BRAZIL

Brazil continued be a country of special focus for the Taskforce during the year under review. It is a large and significant country - one described by the Chief Executive Officer of a Canadian chartered bank as a country with a lower debt ratio and a greater trade surplus than Canada but "that troubles the banks because of its 'attitude'". Brazil is also a growing focus for our sister coalition, the Interchurch Coalition on Human Rights in Latin America. The TCCR submission to the UNCED, to be held in Brazil in 1992, will draw upon the experience of its work in Brazil.

The Taskforce has continued its focus on the social and environmental consequences of the Balbina Dam and on the mining and mineral exploration activities of Brascan. The following two sections describe work which requires patience and persistence because of the vastness of the interior and the need to translate documents.

Brascan

In last year's *Annual Report*, details were given of Brascan's exploration in parts of the Amazon and the effects of the operation of its Jacunda Mine (a tin mine). That report referred to correspondence from Brascan indicating that they had no requests for exploration, exploration rights or mining rights on Indian land.

At that time, the Taskforce was awaiting a response to an earlier letter, sent directly to the Chair of Brascan, who had forwarded the Taskforce letter to Brazil for response. It took some time and some additional letter writing before any response was received from Brascan. The Taskforce is obtaining confirmation of the contents of the response from persons in Brazil who are able to comment from their own experience.

Balbina Dam

The Balbina Dam issue has raised questions in the past about the World Bank's policy and criteria in regard to both environmental concerns and the rights of indigenous people. As a result of earlier work on this issue, officers of the World Bank sought a meeting with TCCR which is reported in the "Third World Debt" section of this *Annual Report* (see page 11).

During the year, there was correspondence with Eletronorte, the regional electric utility. Here again, there was delay in responding to the Taskforce correspondence. Although much of the information is not new, the response is a lengthy one. It makes reference to an aid fund for social and educational needs of people affected by the dam. This is the first time that the Taskforce has heard reference to such a fund. Again, the Taskforce has sought local reaction. An initial reaction contesting Eletronorte's claims has been received from church officials working in the affected communities. TCCR is awaiting a detailed response.

C. THE PHILIPPINES - PLACER DOME

Background 1986-1990

Placer Dome Inc. holds a 39.9% interest in Marcopper Mining Corporation, which operates an open pit mine in Marinduque, the Philippines. Previous Taskforce *Annual Reports* going back to 1986 provide details of church efforts to support a Filipino environmental group, Lingkod Tao-Kalikasan (Secretariat for an Ecologically Sound Philippines), trying to prevent Marcopper's continuing discharge of tailings into the neighbouring Calancan Bay. Over this period there have been numerous meetings with management, several questions from the floor of shareholder meetings and much communication with the local environmental group.

In the early days, Placer's partner in Marcopper was the Performance Investment Corporation owned by former President Ferdinand Marcos. Subsequently, the present government of the Philippines became the registered owner of these shares. The Taskforce has been fortunate to have input from an international marine biologist on more than one occasion. Through connections with the International Marinelife Alliance and the interest of individual scientists, the Taskforce has arranged for assessments to be done by these experts at a time when they were in the

Philippines for other purposes. The independence of these scientists from both the Company and the environmental group has enabled them to provide objective analyses of the situation.

A second ore body has been discovered in the vicinity and the Company has plans, along with new partners, to develop that site. Decisions about the development of the new site have focused upon the resolution of a dispute about income tax and about the disposal of tailings from the new mine.

Throughout the discussions, the Taskforce has also been addressing issues of environmental impact and an external environmental audit report with Company officials and at shareholder meetings.

1990-1991

Dr. Peter Rubec of the International Marinelife Alliance delivered a fifty-one page review of the environmental impact of the San Antonio copper project to the Taskforce. The document was a comprehensive review of the Marcopper operation. It recommended the consideration of an alternative to deep sea dumping (i.e. the solidification of the mine wastes), and pointed to a recent breakthrough in this regard. The report was shared with environmental experts in the Philippine government as well as with the Taskforce, Placer Dome, the Linkod Tao-Kalikasan and Probe International.

A follow-up visit was made by a second representative of the International Marinelife Alliance, Dr. Vaughn Pratt, partially financed by the Scarboro Foreign Mission, the United Church of Canada and the Presbyterian Church.

Dr. Pratt's preliminary report was received in April. He indicated that the Company continues to dispose of tailings from its first mine into the Bay. A second mine is to open shortly as the first mine closes. The Company intends to dump tailings from the new mine into the old pit until it develops a workable deep sea disposal method.

Happily, Dr. Pratt will be a resident of the Philippines where he will work for the government on a fisheries program designed to end the practice of using cyanide and dynamite for catching fish (a process which destroys the corals on which the fish are dependent). Scientists have felt that these practices contributed to the deterioration in the fishing industry in Calancan Bay.

Management and Shareholder Meetings

In Spring 1991 Board representatives met with the management of Placer Dome. The meeting reviewed the history and present status of the Marcopper operation as well as plans for the future, with a particular focus on the environmental impact of the new mine.

The meeting confirmed that the first ore body is virtually exhausted and that the permit for the second ore body (the San Antonio development) has been received with permission to store tailings in the pit from the first ore body. There is not sufficient space to store tailings for the estimated life of the new ore body. The Company is continuing to develop the technology to disperse finer tailings in deep water. The permit guarantees at least a ten year operation.

The terrestrial impact of the new mine does involve the normal land loss associated with an open pit operation. Beyond that, the Company gave assurance that virtually everything will revegetate and that precautions will be taken to protect against run-off. A waste dump site in the Maguila-Guila valley is being used after government agencies indicated that it is not fit for agricultural purposes and that its use will not significantly affect the water supply of adjacent areas. The impacts have been carefully examined by both the Company and the government of the Philippines, and both are satisfied that adverse impacts have been minimized, if not eliminated.

By Philippine law, the second mine will be operated by a new company. Placer Dome is likely to retain its 40% ownership of the new operation. Considerable discussion at the management meeting focused on external environmental audits and the Company's internal audit program. Church representatives supported the Company's audit program and pressed the Company to be more public in helping to develop industry-wide standards and supplying information about its own operation. Because the Philippine operation is not, strictly speaking, a Placer Dome controlled operation, it has not been a part of the rotating internal audits. However, as the major shareholder, Placer Dome did accept responsibility for the level of environmental performance, recognizing that it could not be considered a "passive investor".

The Company's annual meeting was in Vancouver. While continuity is important, the Taskforce Board decided there was not sufficient new information to justify participation at that particular meeting.

The Future

The Taskforce continues to maintain contact with representatives of the International Marinelife Alliance and with the Lingkod Tao-Kalikasan and will likely meet with the Company to monitor this situation sometime before the next shareholder meeting .

D. WEST PAPUA/INCO

The Taskforce became aware that Inco was exploring in West Papua. Contact was made with the Canada-Asia Working Group, a sister coalition, to help determine the priority to be given to this question and to determine who would be the appropriate church contacts. The information reached the Taskforce immediately prior to Inco's Annual Meeting, and so a management meeting was arranged. Reverend Terry Brown of the Anglican Church and Mr. Bill Davis of the Taskforce staff attended. The meeting resulted in receiving information about Inco's exploration which is in the very preliminary stage, sharing the churches' concerns about the effects of exploration on both the environment and on indigenous people, and a broader sharing of Inco's operating guidelines in relation to the environment. While this will not be a high priority in the work of the Taskforce, an ongoing contact will be maintained with Inco to monitor the West Papua situation.

The information about Inco's environmental practices is of interest beyond the particular operation in West Papua, and forms a growing information base as the Taskforce becomes increasingly involved in environmental issues in Canada and internationally.

E. MYANMAR (BURMA)/PETRO-CANADA

In October 1990, Joe Clark, the Canadian Secretary of State for External Affairs expressed Canada's grave concern to the government of Myanmar that the National Assembly had not been given legislative authority and that members of the National League for Democracy, including its party leader, continued to be detained by the interim government. Mr. Clark called upon the government to initiate constructive dialogue and to release all political prisoners. Canada's ambassador to Myanmar conveyed the seriousness with which Canada views some of the actions of this government. While this concern was being registered, Petro-Canada, a crown corporation, was reported to have paid the government of Myanmar

sixteen million dollars for an oil drilling contract, plus a six million dollar signing bonus.

Again the Taskforce consulted the Canada-Asia Working Group to help determine the level of priority that should be given to this issue. The situation in Myanmar continued to be unsatisfactory. On April 24th the *Globe and Mail* reported that the Asia Development Bank had suspended loans to Myanmar because of the abysmal human rights record of its military junta.

The Minister of Finance, in bringing down a budget in February 1991, announced that Petro-Canada's operation in Myanmar "will be eliminated". The Taskforce wrote to enquire about how the elimination would occur, expressing its concern about human rights in Myanmar and Petro-Canada's entering into a working relationship with the government. After a Cabinet shuffle, a response was received from the new Minister of Finance. It reported that he had shared the human rights concern with the Minister of Energy, Mines and Resources, the Minister of State (Finance and Privatization) and the Minister responsible for the Canadian International Development Agency. He reported that Petro-Canada International Assistance Corporation had terminated a technical assistance project in Myanmar and that Petro-Canada, operating on a strictly commercial basis, has entered an exploration and production agreement which is not subject to any government approval. A letter has been written to the Minister of Finance to seek interpretation of the phrase "strictly commercial" and to challenge any assumption that "non-commercial" factors can be ignored.

It seems more difficult to exercise influence on corporate responsibility when dealing with a crown corporation than a publicly held corporation.

F. EL SALVADOREAN COFFEE BOYCOTT

Some American churches have been boycotting coffee from El Salvador in protest against human rights abuses in that country. After gathering information and checking with denominational representatives, it was agreed that there is not sufficient initiative in Canadian churches to mount a similar boycott in Canada. The Taskforce has gathered relevant information about Canadian corporations and about the issue itself, and has prepared documentation for use by persons interested in this issue. That documentation is available from the Taskforce office.

III. CANADA

Propelled by concern about the impact of corporate activity on the well-being of God's whole creation, the Taskforce Domestic Issues Committee has focused in recent years on issues related to forest land management, aboriginal rights, energy, global warming, and military exports. These issues regularly have both environmental and social justice dimensions. Often, a single situation will bring together several themes, as is the case with the Taskforce's growing concern about the proposed James Bay II hydro-electric development in Quebec, which raises serious questions about aboriginal rights, energy policy and environmental protection.

Canadian churches have expressed renewed concern this year about the advertising and distribution practices of companies which manufacture infant formula. In 1986, after sustained public pressure, members of the Infant Formula Manufacturers association agreed to abide by a Code of Practice developed under the auspices of the World Health Organization and UNICEF, but their progress in implementing the code has been slow and churches and other concerned public organizations are once more considering what actions they might take to speed industry action. Experience with the infant formula manufacturers suggests that both governmental and non-governmental organizations have important roles in the implementation and monitoring of industry codes of practice, such as the codes the Taskforce has proposed to guide the land management practices of Canadian forest sector companies.

A key part of the Taskforce's work in the environmental field is to encourage greater accountability on the part of corporations whose activity has a major impact on the environment. The Taskforce has recommended that companies develop environmental codes of practice, issue annual reports on environmental performance and create independent environmental auditing procedures. In the United States similar concerns have led church shareholders to prepare, in conjunction with other socially-concerned shareholders, a series of environmental principles called

the Valdez Principles after the Exxon tanker that spilled oil off the Alaska coast.

Increasing public awareness of the Taskforce has resulted in invitations to speak and participate in a variety of conferences. In November, coordinator Moira Hutchinson and research assistant Peter Chapman spoke at the Social Investment Organization's "Investing in the Environment" conference and, in March, Ms. Hutchinson spoke to the annual meeting of the Ontario Professional Foresters Association about the Taskforce's forestry code and corporate accountability. Taskforce chairperson Ray Hodgson participated in the National Round Table on the Environment and Economy meeting on Decision Making Processes for Sustainable Development and attended a conference on forestry and sustainable development in the Third World.

A. FOREST LAND MANAGEMENT

The Canadian forest products industry plays a major role in shaping the future of Canada's forests and of those who depend on them. Beginning in 1986, the Taskforce has examined the forest land management policies and practices of Canadian forest products companies. A survey of approximately 50 forest sector companies was conducted by the Taskforce in that year to gather information about their environmental and forest management policies. The results showed that few companies had at that time articulated their obligations for management of the forest in policy statements or codes.

The Taskforce then consulted with a wide variety of groups and individuals with an interest in the management of Canada's forests. From this consultation process, the Taskforce developed its own "Model Environmental Code of Practice for Forest Land Management", which it used as the basis for management meetings with several companies and for a shareholder proposal to Noranda Inc. in April 1990.

Since the Taskforce's initial survey, many individual companies and industry associations have developed environmental policies. These policies form a starting point from which to understand corporate obligations for forest land management. But how do companies implement these policies? Are they effective? How do companies report on adherence to their policies? And do shareholders and the public have confidence in such reports? These questions led the Taskforce to convene a second consultation.

Measuring and Reporting Corporate Forest Land Management

On November 22, 1990, the Taskforce sponsored a consultation on "Measuring and Reporting Corporate Forest Land Management". Representatives of church, industry, university, government, native and professional organizations met to assist the Taskforce to better understand what corporations should measure and report about their forest land management operations.

The consultation addressed the questions: What are various parties' responsibilities for ensuring protection of the forest environment? What impact can corporate forest polices have? How is the success of policy implementation measured? What should forest companies report to shareholders and the public about their forest land management practices?

"Summary of the TCCR Consultation on Measuring and Reporting Corporate Forest Land Management Practices", November 22, 1990, is available from the Taskforce.

Letters to Provincial Resource Ministers

In January 1991, the Taskforce wrote the ministers responsible for forestry in each province (except Prince Edward Island) and the Federal Minister of Forests and urged them to take steps to improve the public accountability of corporations which manage crown forest land.

Provincial forest resource ministers were asked to respond to the increasing desire of shareholders and the general public for credible, understandable information on corporate environmental performance and to the need for corporate accountability for social and environmental responsibilities, as well as for compliance with legal obligations.

The Taskforce recommended government take three actions:

1. Where companies are granted responsibility for the management of crown forest lands, they should be required to develop and implement social and environmental codes of practice;
2. Companies should annually report to the public and to shareholders on their compliance with social and environmental codes of practice. Standards for reporting should be established by government;
3. The accuracy of information provided by industry should be verified by independent audits.

The federal minister and the forest resource ministers from all provinces except Manitoba and Quebec replied to these letters. Most responses emphasized the primary role which government legislation and regulations play in determining how corporations manage crown forest lands, and stressed the importance of existing and planned provisions for public involvement in forest management planning and for government monitoring. However, with regard to the Taskforce's suggestion that companies be required to have Codes of Practice, most ministers felt such codes should be voluntary. The Hon. LeRoy Fjordbotten, Alberta Minister of Forests Lands and Wildlife, specifically noted the important role played by professional foresters' codes of ethics and guiding principles as a means to ensure protection of the forest. He also reported that the Alberta Forest Products Association is developing a self-regulating Forest Care Code.

Mr. Murray Little, Director of Saskachewan's Forestry Branch, replying on behalf of the Minister of Parks and Renewable Resources, stated:

> The public is demanding [accountability] and industry is taking steps, both on their own and under the terms of their FMLAs [Forest Management Licence Agreements], to provide it. Government also has a role to play, ensuring that legislation, policies and agreements are respected and that public has access to the information they need to contribute to the discussion in a meaningful way.

Some provincial governments have initiated new forms of public reporting on crown forest management, and several provinces recently audited various aspects of crown forest land management such as timber supply and regeneration Many are instituting government annual reports on forestry.

But while governments have subjected some aspects of management to independent scrutiny, they were reluctant to impose public reporting requirements as recommended by the Taskforce. The Hon. Frank Oberle, Federal Minister of Forestry stated:

> The setting of standards by government for reports prepared by companies on their forest land management practices as well as on subsequent audits would appear to be premature at this time. ... I feel there is a need to maintain a consensual approach to setting clear objectives of environmental performance and

voluntary reporting by the industrial users and government stewards of the forests.

Like the Federal minister, the Taskforce recognizes that some social and environmental responsibilities lie outside the scope of government regulations and legislation, and are rightfully the domain of voluntary action. In such cases, however, the framework within which these obligations are fulfilled should be uniform and the monitoring and accountability procedures should be standardized. This is a role governments must play.

To investors and shareholders, information is useful primarily if it permits comparisons between the performances of individual companies. Thus, while increased reporting by federal and provincial governments on the state of the nation's or a province's forests is encouraging, it does not provide investors and shareholders with the basis on which to make judgements about corporate performance.

Noranda Inc.

Noranda Inc. and representatives of church shareholders have held discussions about corporate reporting to shareholders and the public on its forest land management practices for several years. At the Company's April 1990 Annual General Meeting, church shareholders sponsored a resolution calling on the Company to produce annual environmental reports and initiate independent environmental audits. In November 1990, Noranda announced it would produce an environmental report on the Company's operations. Company President David Kerr, speaking to the Canadian Club in Montreal stated,

> I believe business needs to come clean with full and honest environmental disclosures. As an accountant, I find it surprising that business is required to make so many financial disclosures and so few environmental ones. ...Noranda will publish our first environmental report this year. It will not be a glossy corporate brochure. It will be a straightforward accounting of our compliance records, emission levels, discharges and capital expenditures devoted to environment."

In March 1991 the Company published separate reports for forest operations (Noranda Forests Inc.) and mineral operations (Noranda Minerals Inc.), and invited the Taskforce to comment on them. As

part of the Taskforce's evaluation, copies of the Noranda Forests report were provided to the investment committees of several Taskforce members.

Noranda Forest Environmental Report

The Noranda Forests Inc. environmental report is the first such report to be published by a Canadian forest products company and is uncommon in any business sector. The Company's leadership in environmental reporting was welcomed by the churches, not only because of the information contained in the first report, but because of Noranda's commitment to improve future reports. Notwithstanding this, the Taskforce identified ways it felt the forest land management section of the report could be improved.

First, the Taskforce believes companies should issue annual reports on environmental performance. However, the Company has not made a commitment about how often future reports will be issued. Second, the accuracy of the information in such reports should be verified by an independent audit in a manner similar to financial auditing.

Other improvements suggested by the Taskforce include: more information on compliance of forest management operations with government regulations and with the Company's own environmental policy; greater discussion of Company operations on its private forest lands (approximately one-half million hectares); and inclusion of historical as well as current information about operations so that trends can be assessed.

Noranda Annual Meeting

Following up on last year's church shareholder proposal to Noranda Inc. (see 1989-90 *Annual Report*, pages 63-64), Mr. David Hallman of the United Church of Canada attended the Noranda Annual Meeting on April 26, 1991 to question the Company on its environmental reporting. Speaking on the proxies of the Pension Fund of the United Church of Canada, the Ottawa Diocese of the Anglican Church of Canada, the Jesuit Fathers of Upper Canada, and the Ursulines, Mr. Hallman pressed the Company for greater accountability to shareholders and the general public on how it manages the forest lands under its care and for a commitment to continued improvements in reporting to shareholders.

Mr. Hallman began his remarks by noting that church shareholders had sponsored a shareholder proposal at the previous year's annual meeting calling on the Company to:

1. provide an annual report on the compliance of the Company's forest land management practices with its environmental policies; and
2. to develop procedures for periodic independent audits and for auditor's reports on the implementation and effectiveness of its environmental policies on forest land management.

He recalled that, although the church proposal was opposed by management and was not approved by a majority of the shareholders, the Company made a commitment at the last annual meeting to increase its environmental reporting. Mr. Hallman congratulated the Company for publication of the Noranda Forest Inc. environmental report, but registered disappointment with its lack of detail.

Mr. Hallman asked three questions. His first question was: Would Noranda be prepared through industry associations and other channels to encourage other forestry companies to similarly assess and report their environmental performance? Mr. Alfred Powis, Chairman of Noranda, answered that if Noranda was asked, it would help other companies by sharing its experience, but he noted that it is difficult to produce a report which is easily understandable.

Second, Mr. Hallman asked for assurance that an environmental report will be produced on an annual basis. In reply, Mr. Powis stated that the Company has not yet decided if it will produce environmental reports annually. Unless significant changes occur on a year to year basis, he noted, annual reporting would result in unnecessary repetition.

Finally, Mr. Hallman asked Noranda to develop a process for periodic independent audits of and auditors' reports on the information contained in the annual environmental report on forest land management. Mr. Powis responded that because the Company's forest management operations are already subject to audits by provincial governments, separate audits by the Company would be an unnecessary expense. He suggested that the provinces should publish the information they already collect. However, in closing, he stated that the question is under review and he would not rule them out.

"Notes on the Church Shareholder Presentation to the Annual Meeting of Shareholders of Noranda Inc.", April 26, 1991, Toronto, is available from the Taskforce.

Forest Management and Noranda's Internal Auditing Program

During discussions with Noranda prior to filing the church shareholder proposal, Company officials described at length their environmental management system, which includes an internal environmental auditing program. In the context of these discussions, which centred on forest land management practices, church representatives assumed that forest management was included within the Company's internal environmental auditing program. This impression was strengthened when the Company issued a statement opposing the churches' 1990 shareholder proposal. The management statement read: "All of the Noranda Group companies conduct environmental audits and have been doing so since 1986."

Thus, church shareholders were surprised to learn later in 1990 that Noranda specifically excluded forest land management from its internal auditing program and that no such audits had been conducted. At the 1991 Annual Meeting, Mr. Hallman expressed disappointment with this seeming misrepresentation by the Company.

Late in 1990, the Company began development of a protocol for auditing forest management and planned to conduct a pilot audit on a trail basis in the summer or fall of 1991.

Canadian Pacific Forest Products and the Barriere Lake Algonquin

Canadian Pacific Forest Products is one of three forest products companies operating in an area of Quebec which is the traditional home of the Barriere Lake Algonquin. As timber harvesting activities have encroached on their traditional uses of the forest, the Barriere Lake Algonquin have sought ways to protect their aboriginal rights. The band proposed that the Quebec government and the Federal government work cooperatively with them to develop a conservation strategy to provide a framework for land use planning. In January 1990, church representatives met with CP Forest to discuss forest land management activities, including those which affected the people of Barriere Lake. The churches urged the Company to respond positively to the band's request that

harvesting in the area stop until the proposed conservation strategy was completed. The Taskforce also wrote to the Quebec Minister of Forests expressing concern that continued timber harvesting not jeopardize the conservation strategy process proposed by the band.

Negotiations between the band and the federal and Quebec governments continued sporadically until June 1991 when a mediator was appointed and an agreement in principle was reached on the process for developing the conservation strategy.

Daishowa Canada and the Lubicon Cree

The Taskforce first corresponded with Daishowa Canada Co. Ltd. (a wholly owned subsidiary of Daishowa Paper Manufacturing Co. of Japan) in 1988 to express concern about the effect of its company's operations on the Lubicon Lake Cree of northern Alberta. The Company operates a bleached kraft pulp mill at Peace River, Alberta and draws its wood supply from a 29,000 square kilometre Forest Management Area granted by the province. The FMA includes 10,000 square kilometres which is the traditional homeland of the Lubicon Lake Cree, land to which the band has never relinquished its title and which has been the subject of prolonged, unsuccessful negotiations with the federal and provincial governments. In the absence of a settlement of their claim, the band strongly opposes Daishowa's plans for timber harvesting in this area.

Representatives of the band and the Company met in Vancouver in March 1988 to discuss the band's concerns. Following the meeting, the band stated that the Company had agreed not to log in their traditional area until the land claim had been settled and also had agreed to band involvement in wildlife management. Subsequently, however, the Company denied that any such agreement had been reached.

On December 21, 1990, the Taskforce wrote Thomas Hamaoka, Vice President and General Manager of Daishowa Canada, to express concern about Company logging operations within traditional Lubicon territory. James P. Morrison, a regional manager for the Company, replied on January 8, 1991 that Daishowa was "not aware of a direct confrontation between the band and our company". Further, Morrison indicated that excluding a possible reserve site set aside by the provincial government (approximately 243 square kilometres) and abiding by the terms of the FMA "satisfied any assurances Daishowa gave the Lubicon band in the spring of 1988."

The Taskforce wrote again to Mr. Hamaoka on March 4, 1991 to press the Company for an answer to its question about commitments made by the Company at their March 1988 meeting. The Taskforce also asked the Company to restrict its logging operations to only those parts of its FMA not subject to an aboriginal land claim until either the claim is settled or the band consents to such activities.

The Company replied that it had at "no time made a commitment to the Lubicon Band that involved their 'traditional territory'", contradicting the band's interpretation of company statements at the meeting. The Company also stated that "Daishowa's $580 million dollar investment in the Peace River pulp mill was premised on having that secure wood supply and eventually it will be needed." Indeed, Company operations within the traditional Lubicon area were already proceeding by that point.

National Forest Strategy and the CEN Forest Caucus

In April 1991, the Taskforce participated in a meeting of the Canadian Environmental Network's Forest Caucus. (The Forest Caucus consists of CEN members with a special interest in forest issues. Most are local or regional organizations.) The purpose of the meeting was to hear a presentation by representatives of the Canadian Council of Forest Ministers on the process for creating a new National Forest Strategy and discuss participation in the process by caucus members.

The first National Forest Sector Strategy was first developed in 1981 as a means to set strategic goals for the development of forestry and the forest industry. It was last revised in 1987. The public participation process for the new strategy includes regional public meetings, opportunities to review and comment on drafts of the strategy and a possible national meeting. The completed document will be presented at the National Forest Congress in Ottawa in March 1992.

Normally, CEN facilities environmental groups' participation in such government consultation processes by making available the names of individuals willing to participate. However, after hearing the CCFM presentation, the caucus decided that it was not willing to participate as a coordinated stakeholder group or to put forward names of individuals. In a letter to the Council of Forest Ministers, the caucus explained that it felt the NFSS process was oriented toward forestry rather than forests and therefore was not broad enough to meet the concerns of caucus members, and in addition,

that it did not adequately address the requirements and rights of aboriginal land uses and focused too much on forest exploitation rather than forest protection, the primary concern of the caucus. Caucus members were free to participate on an individual basis.

The Taskforce received and commented on a preliminary draft of the National Forest Strategy. It suggested that the document's orientation toward valuing the forest for the human needs it meets should be balanced by greater recognition of the forest's inherent value and that greater attention should be paid to the link between social justice and environmental protection, both domestically and abroad. Canada should take a lead in redressing the imbalances and inequities that prevent less developed countries from protecting their forest ecosystems and, at home, should recognize the right of aboriginal people to manage their own lands.

B. ENERGY

Hydro Quebec - James Bay II

Churches have become concerned about the proposed hydro development known as James Bay II. Church activity in relation to this issue has been carried out by individual denominations and by our sister coalition, the Aboriginal Rights Coalition. It is only in the year under review that the Taskforce has become active in addressing a particular part within the larger opposition to the project. The essential background is well described in an address by Taskforce board member, Peter Hamel (Anglican Church), on October 25, 1990, at the Royal Ontario Museum, to the conference on "Rainforests a Special Event." The address was part of a panel presentation on the Third World, and Mr. Hamel's part of the presentation was to examine the Third World within Canada. Mr. Hamel chose hydro electric development and the James Bay Cree of Northern Quebec, as well as the Lubicon Lake Cree of Northern Alberta and their struggle with oil production and pulp and paper, as the examples for his address.

The following is extracted from the address as an introduction to the Taskforce activity in regard to the Great Whale River project, known as James Bay II :

> The Great Whale River Project is slated for completion in 1998 and the Nottaway-Broadback-Rupert River development (NBR) is to go on stream in 2006. On September 27th, 1990, the National Energy Board issued licences for the export of nearly $25 billion

worth of James Bay power to New York and Vermont. The National Energy Board admitted it doesn't know if the new dams will cause irreparable environmental damage. The licences are conditional on the power utility first submitting to "appropriate environmental reviews". Two weeks later a Vermont regulatory body reduced their proposed purchase and imposed stiff conditions on the rest of the sale.

Earlier this year the Cree had asked the NEB to refuse the licence applications on the grounds the new projects would cause widespread environmental damage. The NEB replied, "The issue rather is whether, on balance, the environmental consequences are acceptable or mitigable."[3] In order to finance these mega monsters Hydro-Quebec will have to raise over $60 billion on the bond markets. Hydro-Quebec already has a debt of $20 billion and the province $23 billion.

The scope of the James Bay project is mind boggling. As planned it will account for nearly 25% of the continent's hydro-electric power. Once completed it will control the energy of all waters flowing through 350,000 square kilometres of northern Quebec - almost a quarter of Canada's largest province. These are the last eight remaining large natural rivers in the Cree territory. Some will be reduced to a trickle; others simply submerged. These multi-basin diversion projects include 16 dams, ten reservoirs and 70 dikes which will flood 7,000 square kms. This is equivalent to flooding the area from Toronto to Guelph and the whole Niagara Peninsula.[4]

Forestry operations are also destroying Cree lands. Contrary to the James Bay Agreement signed in 1975, the Cree have accused Quebec of "illegally selling the Cree forest to multinational companies". Six hundred square kilometres of forest are being clearcut annually without consideration for sustained yield or the

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[3] "NEB Okays Hydro-Quebec exports," Toronto *Globe and Mail*, Sept. 28, 1990.

[4] Matthew Coon Come, "Statement of the Grand Chief Matthew Coon Come on the occasion of the Visit by the Kayapo People of Brazil to the Cree People." Montreal, Oct. 4, 1990.

basic principles of environmental protection.[5] James Bay II will flood 13,000 sq kms of commercial forest. For economic reasons, only forest close to power stations and other access points is being cleared. This isn't all. The access road to the NBR project will open 12-18 million cubic metres of marketable lumber, most of which will be exported.[6]

In a 1989 report,[7] the National Audubon Society addressed the long term threats to James Bay from hydro-electric developments. The Bay possesses extensive marshes and intertidal flats on the southern and western coasts that provide vital staging habitat for millions of migrating shorebirds and nesting and staging areas for waterfowl. The shorebirds flock here to fuel up in a few short days for their long flights to Central and South America. Some species have a round trip of 25,000 kms. There are very few areas that provide such biological richness to feed such large populations so rapidly. Some species double their body weight in 2 weeks! The report warns that "many species of migratory shorebirds would be severely threatened, possibly even to extinction, if a crucial stopover area were damaged".[8]

This is not an outrageous statement when you consider the impact of diverted rivers on James and Hudson Bays. James Bay development will reverse the natural pattern of river flows. They will be greatest in winter - up to 10 times the normal volume. The spring runoff will be diminished. Water salinity will change at a number of sites which in turn could wreak havoc on anadromous fish (live in bays, spawn in rivers) and mammals (beluga whales, seals) that require specific foods and water

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[5] Matthew Coon Come, "A Statement to the Assembly of First Nations Self-Determination Symposium." Toronto, Oct. 3, 1990.

[6] Peter Gorrie, "The James Bay Power Project: The environmental cost of reshaping the geography of northern Quebec." *Canadian Geographic*, Feb/March 1990, p. 20-31.

[7] J. Rosenthal and J. Beyea, "Long-Term Threats to Canada's James Bay From Human Development." *Environmental Policy Analysis Development Report #29.* National Audobon Society, July 1989, p. 34.

[8] Ibid., p. 13.

conditions. If ice patterns around islands are affected by altered rivers flows, the beluga whales could be in jeopardy. Changes in salinity could be detrimental to benthic marine species and modify the distribution of salt marshes. Moreover, nutrients that now flow into the bays will settle in the reservoirs.[9] The data is not available to predict the consequences, but the impact could be catastrophic.

If the Grand Canal water diversion scheme is ever implemented it will transform all or part of the marine basin of James Bay into a freshwater reservoir. This would be done by building 165 kms of dikes across the mouth of the Bay. Then, said Premier Bourassa, "water which has already served its useful purpose in Canada and would otherwise be lost to sea, would be exported".[10] Such a scheme, says the Audubon report, would make the Bay "uninhabitable for most wildlife now dependent on it".[11]

Too little time has passed to assess the environmental impacts from Phase I, the La Grande River, which also runs into James Bay. Moreover, there is no assessment of the cumulative impacts from such hydro-electric developments. Each project is considered in isolation. The Audubon Society warned that "if the damage from an individual project is marginal, the project can be approved, even though the cumulative impact of many such projects will mean the loss of an ecosystem".[12]

Also in jeopardy are the migration patterns and calving grounds of the Ungava caribou herd, and the only population of fresh water seals known in North America. Erosion will be severe along shorelines and river banks and there will be a significant new source of CO_2 and methane emissions from rotting vegetation in the reservoirs (100 million tons of Carbon emissions over 50

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[9] Gorrie, p. 24.

[10] Robert Bourassa, *Power from the North* (Scarborough: Prentice Hall, 1985), p. 148.

[11] Rosenthal and Beyea, p. 3.

[12] Ibid., p. 15.

years).[13] Other projected consequences include climatic change, Hydro-Quebec's increased debt load, the destruction of inland waterfowl habitat, the removal of habitat for nesting songbirds, and spawning habitat for trout and other fish species.

This mad development also has a human cost. These projects will destroy the most productive Cree and Inuit hunting areas for the communities of Great Whale, Chisasibi, Waskaganish, Nemaska, Waswanipi, Mistissini, Umiuyak, and Ouje-Bougoumou.

For the churches, there are two issues identified in Mr. Hamel's comments: the many environmental impacts of a project of this scope, and the rights of the Cree and Inuit people. In addition, churches have a broader concern about the underlining assumption that energy demands must continue to increase. The resolution of The United Church of Canada regarding James Bay II Hydro Electric Development contains the following "whereas" clause and recommendation:

> WHEREAS the United Church has passed a number of policy statements which recommend a more stewardship approach to energy use, emphasizing reduction of demand through conservation and efficiency rather than continuous expansion of supply in environmentally-risky mega-projects (GC92 Energy Statement; GC90 Resolution on Global Warming)...
> THEREFORE BE IT RESOLVED THAT THE EXECUTIVE OF THE DIVISION OF MISSION IN CANADA:
> ...4. Call upon the Quebec government and Hydro Quebec to shift their focus toward a sustainable energy policy which would reduce the need for megaprojects and stress energy efficiency, conservation and safe renewal sources thereby protecting both the integrity of the land and the way of life of aboriginal peoples.[14]

Quebec Hydro, itself, in its 1990 *Annual Report* makes reference to a goal of reducing "annual Quebec demand for firm electricity by 12.9 TWh by 1999. This is equivalent to half the present electricity

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[13] Matthew Coon Come, October 3, 1990, p. 7.

[14] United Church of Canada, "Resolution re James Bay II Hydroelectric Development", Executive of Division of Mission in Canada, June 7, 1991.

consumption of the Island of Montreal."[15] The report goes on to list a number of energy conservation measures that it is planning.

When projects of this scope and potential impact are being considered, they are normally subject to the Federal Environmental Assessment Review Process. The Province of Quebec also requires an environmental review. The Environment Minister for the province has supported a comprehensive public review of the Great Whale River project. The Energy Minister has persuaded the Quebec cabinet to split the review into two parts. The first review would examine the roads and other "access infrastructures" linking the completed LaGrande river hydro electric mega-project to the sites of the Great Whale River mega-project. The second review would be held jointly with the federal government and would examine the environmental impacts of the dams and dikes.

In September 1990 the National Energy Board in agreeing to issue two new export licences made their validity subject to the condition that all new generating station projects associated with the export be submitted to the federal environmental assessment and review process. Quebec is appealing the Board's decision before the federal court of Canada. [16]

Cree and Inuit Response

In the Spring of 1990, about forty Cree and Inuit carried a canoe, which was half Cree design and half kayak design, to several centres in New York State, stopping as well in Ottawa and Montreal. The Primate of the Anglican Church blessed the canoe at the beginning of its journey, and the Sub-Dean of the Episcopal Church was present on the Hudson River when the party arrived to speak at an Earth Day service in New York.

Perhaps the best description of the feeling of the Cree and Inuit people comes from a report of the Montreal Interchurch delegation which visited the Great Whale River in February 1991. The delegation met with a broad representation of both Cree and Inuit communities including band and municipal councils, elders, school classes, community leaders, James Bay taskforce members, youth

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[15] Hydro Quebec, *Annual Report*, 1990, p. 20. One terawatthour (TWh) equals one billion kilowatthours.

[16] Ibid. p. 7.

representatives, teachers, nurses as well as their Cree and Inuit hosts.

The message given to the delegation was clear and unanimously upheld by both the Cree and Inuit communities.

Their way of life, their cultures, their languages are all an integral part of a spiritual vision of the universe sustained by the creator; the relationship between the land and the people is characterized primarily by a sense of mutual dependence and kinship rather than that of domination.

For them, the diversion of rivers and the flooding of the most productive land will destroy their hunting, poison their fishing, flood their burial grounds, and place their future in jeopardy. Hydro Quebec's plan for Great Whale River will be carried at the expenses of native people; the "positive" economic benefit would be for the south; the "negative" repercussions for the North. No amount of money can compensate for a pillaged land! The access roads linking LaGrande complex with the Great Whale will facilitate the invasion of dominant southern culture. The accelerated schedule for road construction will preclude any modifications to the project; all Quebecers will be presented with a fait accompli.

The Cree and the Inuit are not opposed to northern development. But this project is too dangerous and advancing too hastily. Under the terms of the 1975 James Bay Agreement the Cree and Inuit believe they were given a significant role in determining the character of northern development. Now, they say the governments have not fully respected that agreement nor adjusted their plans according to the lessons learned from the first James Bay Hydro project. [17]

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[17] "Our Land is Our Life", report of the Montreal Interchurch delegation, 19 March 1991. This report was written by Canon Garth Bulmer, staff member of the Anglican Diocese of Montreal. Other members of the delegation included the Anglican Bishop of Montreal, the President and a staff person of the Montreal Ottawa conference of the United Church of Canada, the Roman Catholic Bishop of the Diocese of Labrador City-Schefferville, the Episcopal Vicar of the Roman Catholic Diocese of St-Jean-Longueil, the Roman Catholic permanent deacon at Kahgnaswake, a staff person with the Roman Catholic Entraide Missionaire and a Mennonite from Friendship House in Montreal.

Church and Taskforce Response

The churches are addressing the issue in many ways. The Montreal Interchurch delegation to Great Whale issued a press release with a three-point public statement. The points are as follows:

1. The stated concerns of the Cree and the Inuit must be taken seriously. The Great Whale project does appear to involve the risk of irreversible damage to the native people and their environment.
2. We are convinced that this project is not simply a problem between Hydro Quebec and the native people. This project is promoted in the name of Quebec's ever increasing energy needed. The cogency of this argument, as well as many of the claims, must be open to scrutiny by means of an open public debate on energy policy and public financing.
3. Without question the Cree and Inuit must be active participants in the planning and decision making and the realisation of any project which directly affects their land.

The churches are co-operating with environmental groups, native groups and many other concerned persons in various networks pressing for the full environmental assessment review process to be conducted in an open public way and opposing the splitting of the project into two parts with the infrastructure being allowed to proceed before the balance of the assessment has been completed.

The Taskforce sees its participation as being focused on the financing of the project. Since much of the power to be generated by the project is to be exported to the United States, and since much of the capital required to complete the project would be raised in the United States, there have been active campaigns in that country to oppose both the purchase of the power and the purchase of Quebec Hydro debt. The Taskforce has initiated communication with some of the underwriters of Quebec Hydro debt in Canada. As this report is being written, there has been an initial exchange of correspondence and scheduling of dates for meetings in August and September. The first two underwriters with whom the Taskforce has corresponded are Dominion Securities and Wood Gundy, both of whom are controlled by chartered banks (the Royal Bank and the Canadian Imperial Bank of Commerce). Both of these Banks have environmental codes governing their operations, which include their lending of money. Part of the

discussion will focus on the way in which these codes are applied to their subsidiaries at the time when they underwrite debt.

Representatives of the Taskforce have been meeting with a significant network of concerned people and organizations. Under consideration is the possibility of the Taskforce coordinating a communication to the largest pension fund investors in Canada, urging them to postpone the purchase of Quebec Hydro bonds, which provide capital for this project, until the full federal environmental review process has been completed. The letter would focus on the environmental risks, the extensive destruction of the way of life of the Inuit and Cree, and the need for a deliberate and reasoned approach to resource development. If the churches can agree to the content of such a letter and to forwarding it to potential investors, it is hoped that some prominent environmental groups and native support organizations would also sign.

The Taskforce recognises that this is a small part of a larger initiative in which churches will be involved. It also recognises that being part of the various networks is important; therefore, it is maintaining contact with the Aboriginal Rights Coalition, with native and non-native people in Quebec and in the United States, as well as in Toronto, where one growing network is based.

Church Energy Policy Framework

In the fall, the domestic issues committee began discussions on an energy policy framework to assist individual denominations renew or develop energy policies. These discussions also directly assisted the Taskforce, since many issues it addresses relate partly or wholly to questions of energy use and energy policy.

The draft policy outlines a range of issues associated with energy questions. Central to the framework is the link between energy use and its broad environmental, social and political consequences. The draft states, "Globally, both military and economic power are intimately allied to possession of energy resources or the means to dominate market access to them. ...A pattern unfolds whereby the rich become richer and stronger and the poor become poorer and weaker." It adds, "A just society will at least mean that everyone has access to whatever is necessary for their basic needs." Social justice and environmental protection require recognition of the limits to material prosperity, curtailment of energy use in rich countries, and a shift from non-renewable to renewable energy.

The effect of energy policy on aboriginal peoples and the poor must be considered.

The draft policy framework document has been circulated for comment to several NGO organizations with expertise in the energy field.

Global Warming

Several members of the Taskforce board attended the Ecumenical Consultation of Churches in Northern Industrialized Countries (Gwatt, Switzerland, Jan 13-18, 1991). The consultation was organized by the Swiss Protestant Federation, in conjunction with the United Church of Canada, and brought together representatives of churches from industrialized countries to plan coordinated strategies on atmospheric destruction, in particular, global warming.

On their return, the Canadian delegates to the consultation called on Canadian churches to become more effective role models by implementing energy efficiency and conservation strategies at all levels, to develop policy positions on global warming (if not already in place), and to advocate at the municipal, provincial and federal level actions to reduce greenhouse gas emission levels. They urged the federal government to adopt a goal of a 20% reduction of human-source carbon-dioxide emissions by 2005, (compared to 1988 levels) and an annual 2% reduction in Canadian energy use, to implement a nationally equitable energy tax to fund sustainable energy development in developing countries, and to participate actively in the up-coming negotiations on an international World Climate Convention.

In June 1991, Canadian church leaders wrote to U.S. church leaders to encourage joint action on the recommendations of the Gwatt consultation. In particular, U.S. church leaders were urged to press the Administration of the United States to take a more positive and constructive position in discussions about the World Climate Convention. The U.S. is one of several countries (along with the Soviet Union and Saudi Arabia) which is exhibiting considerable resistance to negotiating an effective Convention.

C. MILITARY INDUSTRIES

For many years, the Taskforce and Project Ploughshares have raised concerns with government and industry about Canadian arms exports. Recognition of the role that unrestrained arms transfers

played in the Persian Gulf War has stimulated many governments to call for some form of control over the international arms trade. Canada has been a recent vocal supporter of such actions. At the same time, however, it has vigorously pursued export opportunities where they arise. The most recent major example of such government support is General Motors' sale of light armoured vehicles to Saudi Arabia.

As a first step to arms trade control, Canadian churches seek greater government disclosure of information about the granting of export permits for foreign military sales and more openness about how the government applies arms export policies. Industry must create and make public clear policies on the production and export of military commodities, and make information about its activities more available to shareholders and the public.

General Motors

General Motors of Canada Ltd. began production of light armoured vehicles (LAVs) at its London, Ontario diesel division plant approximately ten years ago. The vehicles were based on a design licensed from the Swiss company MOWAG. General Motors' first LAVs were produced for the Canadian Department of National Defence. Subsequently, the Company filled several orders from the U.S. military and tried unsuccessfully to market the LAVs in the Philippines, Indonesia and other developing countries. Saudi Arabia has long been a target of the GM sales effort.

In 1988, church representatives met with senior management of General Motors Canada (see 1988-89 *Annual Report*, pages 18-19) to discuss a draft shareholder proposal calling for the Company to establish and make public policies on its involvement in military production and to support greater openness by the government on matters relating to the application of arms export controls. The Company declined the request that it create policies on military production but stated that, should the government decide to make public the list of countries to which military exports are controlled or banned, General Motors would not oppose it.

On July 16, 1991, church representatives again met with General Motors Canada senior management. The meeting was requested by the churches to discuss GM plans to sell up to 1500 light armoured vehicles to Saudi Arabia in light of recent initiatives to control international arms transfers, particularly in the Middle East.

Mr. Ernie Regehr, research director of Project Ploughshares and Canada's representative to the United Nations expert group on arms transfer transparency, participated in the meeting with General Motors as part of the churches' delegation. Mr. Regehr provided a brief overview of international efforts to make public more information about arms transfers. He noted the recent endorsement of a UN arms trade registry by the leaders of the seven major western industrialized countries, which raises the possibility that such a registry will be established soon.

Church representatives also expressed concern about proposed amendments to the Criminal Code permitting exports of automatic weapons under some conditions. General Motors termed the amendments "clarifications" and stated that it welcomed them, particularly because General Motors has signed a contract to supply 393 light armoured vehicles to Saudi Arabia. Unlike previous LAV sales, which were sold on a government-to-government basis, these will be sold to MOWAG, the Swiss company which licensed the design to GM, and by them to Saudi Arabia. A second sale of 1117 LAVs to Saudi Arabia, in this case through the U.S. Defense Department, is also under negotiation.

Although sales prospects for military commodities are generally declining, GM feels the LAV has a growing market because its flexibility and mobility (it can be moved by large military transport aircraft) make it useful for rapid deployment forces and drug interdiction. Church representatives responded by pointing out that it can be used by unpopular regimes trying to control insurgency among their own people. Saudi Arabia has a record of serious human rights violations, as do other countries which have been the target of GM sales efforts.

Bombardier Inc.

On June 26, 1991, Fr. Jean-Louis Richard, Director, Centre Missionaire Oblat, Montreal, attended the annual meeting of Bombardier Inc. on behalf of the Taskforce to raise questions about the Company's involvement in the production and export of military commodities, which accounted for approximately 12% of Company sales in 1990. Bombardier, a major Canadian manufacturer of transportation equipment, has expanded into the aerospace sector by purchasing three companies: Canadair (Canada) in 1986, Short Brothers (United Kingdom) in 1989 and Learjet Corporation (United States) in 1990. Its involvement in military production is largely as a result of these acquisitions.

Church representatives met with Bombardier President and Chief Operating Officer Raymond Royer on March 28, 1990 to discuss a draft shareholder proposal from church shareholders. During the meeting, Mr. Royer agreed to bring before the Board of Directors the question of developing a company policy on military production and sales, and as a result church shareholders decided not to submit the proposal. The Taskforce subsequently provided Mr. Royer with information requested by him on similar policies produced by companies in other sectors. After several reminders about the Company's commitment, Mr. Royer provided the Taskforce with a copy of its Management Philosophy, a broad document which made no reference to the issues raised by church shareholders.

Because of the inadequacy of this response, Fr. Richard attended the Company's annual meeting on behalf of church shareholders to raise the matter once more with the Company. Fr. Richard spoke on the proxy of the Roman Catholic Diocese of Moosonee, James Bay and on behalf of the General Synod of the Anglican Church of Canada. He thanked the Company for meeting with church shareholders in March 1990. He pointed out that as a result of recent acquisitions, Bombardier now produces military commodities in several foreign countries, each of which applies its own rules to the international arms trade. "This," Fr. Richard stressed, "places a special responsibility on the Company to apply consistently high standards regardless of local laws and regulations." He stated:

> Companies should not limit their definition of social responsibility to the minimum that is required by the government. The Church shareholders I represent consider some military production necessary, and some unacceptable. Other shareholders and the public may have different criteria. We believe that a clear statement of policy by Bombardier, and more open disclosure by the government and all companies about the international arms trade, will enable investors and other stockholders to play their legitimate role in future decisions about the place of military production in Bombardier's corporate strategy.

Fr. Richard then addressed two questions to the Company. First, he asked Bombardier to provide shareholders with a policy statement on the application of human rights and other criteria to the export of military goods and services. Mr. Royer, responding on behalf of the Company, stated that Bombardier complies with all laws in the countries where it operates and acts in accord with the Canadian tradition of respect for human rights. He said this was

sufficient. Second, Fr. Richard asked if the Company would set a limit on military contracts as a percentage of sales, to which Mr. Royer responded that the Company had no intention of making military production the main part of its business, but neither did it intend to reduce the military proportion of its business.

"Notes on the Church Shareholder Presentation to the Annual Meeting of Shareholders of Bombardier Inc.", 36 June 1991, Montreal, is available from the Taskforce.

CAE Industries/Bank of Nova Scotia

When CAE Industries Ltd. purchased the Link simulation and training systems division of Singer Co. in 1988, it became a major supplier to the U.S. Department of Defence. The purchase was facilitated by $450 million financial backing from the Bank of Nova Scotia. At the time of the sale, the Taskforce wrote the Bank to raise questions about its role in the purchase. The Bank replied that the Canadian government rather than the Bank was in the best position to respond to the issues raised by the churches.

In February 1990, the Taskforce wrote to remind the Bank that the issue raised by the churches was one of Canadian investment in foreign military production, and thus, does not come within the scope of Canadian government regulations on the arms trade. A reply has not yet been received from the Bank.

D. ENVIRONMENTAL ASSESSMENT

In June 1990, the federal government introduced legislation to revise the terms under which it conducts environmental assessments. The Taskforce and the Aboriginal Rights Coalition submitted a joint brief to the House of Commons committee which held hearings on the Canadian Environmental Assessment Act (Bill C-78).

Church involvement in environmental assessment hearings began almost fifteen years ago with the Mackenzie Valley Pipeline Hearings. The brief drew on these many years of experience to set out principles which must be adhered to if an assessment process is to respect the public's interest in the environment, to maximize public participation in the assessment process and, in particular, to ensure the meaningful participation of marginalized groups that are directly affected by development projects.

Bill-78 falls short of these principles in several fundamental ways. It leaves far too much discretion in the hands of government to implement the assessment process, to determine when an assessment is required, to appoint panel members and to direct the studies associated with environmental assessments. Social and economic impacts have been virtually eliminated from consideration by a narrow definition of what constitutes an "environmental effect." The brief recommended that Bill C-78 be amended to include consideration of impacts on humans and human society.

Under the provisions of the bill, many cases will arise where the government department or crown corporation which is the proponent will have the power to decide how the legislation is applied. The brief was critical of this point:

> The assessment process is by its nature an adversarial one between the proponent and the public interest. It is simple common sense that a proponent, or an agency whose interests are linked to those of the proponent, should not have the authority to make key decisions about the assessment of a project. Moreover recent experience of self-assessment in Canada ... shows this common sense assumption is justified, and the self-assessment system places a very large onus on public interest groups to reveal the distortions which self-assessment is bound to produce. Only when authority lies at arm's length from the proponent, and when the public has full access to fully scrutinize why decisions were made, will there be adequate assurance that the public interest will be served.

The brief also recommended that the bill be amended to provide for intervenor funding to public interest groups and to ensure that these groups, which often are comprised of volunteers with full-time jobs, are given adequate time to participate in the assessment process and access to all relevant information. "If the public review process is to be taken seriously, and not serve merely as a convenient vehicle to rubber stamp government inaction, the public needs to be given all the information, a reasonable time frame and the financial resources necessary to conduct their own independent assessment of industrial projects."

The environmental assessment process must recognize that important aboriginal rights extend over all parts of Canada, rights which take precedence over the commercial interests of the general population. The brief points out, "Obviously, the logical occasion to assess the impact that a project is going to have on aboriginal

rights is in the context of a federal environmental assessment, when other impacts are being assessed."

Bill C-78 died on the order papers when that session of Parliament ended in Spring 1991 and was reintroduced into the following session of Parliament as Bill C-13.

"Brief on Bill-78, an Act to establish a Federal Environmental Assessment Process", November 20, 1990, is available from the Taskforce, $2.00.

E. NESTLE/AMERICAN HOME PRODUCTS

Throughout the early 1980s, Canadian churches participated in the boycott of Nestle products because the Company was one of several engaged in aggressive promotion of infant formula through hospitals in developing countries. This practice has been identified as a cause of decreased infant breastfeeding and, consequently, linked to increased infant illness and death. In 1984, Nestle agreed to eliminate all forms of promotion of formula and abide by the World Health Organization/UNICEF Code on the Marketing of Breastmilk Substitutes. As a result, the boycott was called off. Since then, however, implementation of the agreement has been slow and, as free sample distribution continues, churches' attention is once more drawn to this issue.

On December 5, 1991, church representatives met with Nestle to discuss company practices in relation to the WHO/UNICEF Code and to express the churches' continuing opposition to the free and low-cost distribution of infant formula by Nestle and other companies such as American Home Products, Abbott, Bristol-Meyer-Squibb and Gerber. Church representatives asked the Company to take four actions:

1. Announce a corporate policy to end the provision of all free and subsidized or low-cost formula supplies and set a timetable to do so;
2. Fully comply with the WHO/UNICEF International Marketing Code, as agreed to in 1984;
3. Use its influence as an industry leader to work for changes in the practices of its fellow members of the International Association of Infant Food Manufacturers;
4. Apply the WHO/UNICEF Code in all nations.

Nestle reported that it has withdrawn from two countries unilaterally, but wants future withdrawals to be done in concert with other suppliers, because it believes that following such unilateral withdrawals, other companies have simply filled its place. Such coordinated action relies on the cooperation of governments, but Nestle has concluded that there is little interest in pursuing this among the governments of developing countries.

The Company believes its continued provision of free infant formula samples is consistent with the WHO/UNICEF Code, and interprets implementation as being on the basis of regulation by individual governments.

In a January 4, 1991 follow-up letter to Nestle, church representatives pointed out three concerns about the Company's policy. First, it did not appear to comply with the WHO/UNICEF Code's provisions defining the exceptions in which free or low cost supplies may be provided. Second, the churches believe the Code's provisions are applicable in all countries, whereas the Company expressed the view that the Code governs only marketing practices in less developed countries. And third, Nestle has not set a deadline for ceasing distribution of free infant formula supplies.

In June 1991, the Infant Formula Manufacturers, which represents producers of infant formula, reached an agreement with WHO/UNICF to end donations or low cost supplies of infant formula to maternity wards and hospitals in the developing countries by 1992, contingent on legislation to that effect being adopted by governments. WHO/UNICEF has offered to work with governments on a country-by-country basis to prepare regulations or other measures which require all companies to adhere to the same restrictions.

The Taskforce works closely on this issue with the Inter-Faith Center for Corporate Responsibility in the United States and other international partners. In Canada, the Taskforce has cooperated with the Infant Feeding Action Coalition (INFACT).

The Taskforce requested a copy of the American Home Products Wyeth-Ayerst statement on infant supplies from Wyeth Ltd., the Company's Canadian subsidiary. A copy was received.

IV. RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Corporate Governance Committee, which meets five times a year, provides a forum for discussion of the increasing interest in Canada in responsible investment. It monitors developments which affect the ability of shareholders and of the public to influence corporate behaviour. It also apprises corporations and governments of the churches' views on responsible investment and corporate conduct.

A. RESPONSIBLE INVESTMENT

The Taskforce identifies three options for responsible investors to be used independently or in combination: active share ownership; ethical (screened) investment; and social purpose (alternative) investment. Active share ownership involves accepting one's responsibilities as a shareholder (part owner) to influence corporate behaviour. Ethical, or screened investment is the form of social investment best known to the public. In responding to inquiries about responsible investment, the Taskforce has been careful to point out that ethical investment is not the only way to be a responsible investor, nor is it always the most effective. Alternative investment seeks also a social benefit as a part of the return to the investor, though perhaps at some higher risk or lower return.

In the year under review there were evidences of increasing interest in all aspects of responsible investment. Growing public awareness of the fragility of the environment has given rise to an interest in "Green Investing". People wish to be environmentally sensitive in their life styles and this includes both their consumption and their investment. We are encountering new organizations around the world which exist to screen investment or to encourage responsible, active share ownership. Institutional shareholder activity, once almost exclusively the territory of churches, has been adopted by many large institutional pension funds. These funds have for several years been concerned about corporate involvement

in South Africa. Their focus has gradually expanded to include environmental concerns as promoted by the "Valdez Principles",[18] confidentiality of shareholders' votes and recently, a growing focus on the composition of corporate boards of directors.

The Taskforce has worked to arouse and sustain this broadening of public and institutional interest. Perhaps the outstanding contribution during the year was the conference jointly sponsored by the Taskforce and the Centre for Corporate Social Performance and Ethics, Faculty of Management, of the University of Toronto on December 7, 1990 entitled "Strategies For Responsible Share Ownership: Implications for Pension and Other Investment Funds". In addition, a Taskforce staff member spoke on responsible investment to a Rotary Club in Toronto and was interviewed on the CBC. Taskforce work in the forestry sector led to opportunities to speak on investor responsibility to a major Taskforce forestry consultation (November 1990, Father Ed Sheridan) and to the Ontario Professional Foresters Association (February 1991, Moira Hutchinson). Contact was made with a number of European centres doing work similar to our own to expand the network. The Public Social Responsibility Unit of the Anglican Church of Canada completed a video on responsible investing in which Taskforce staff participated. Two staff members also made presentations to the Social Investment Organization, a network of individuals and organizations promoting ethical and alternative investing in Canada.

In the alternative (social) investment area, an interesting development is the emerging interest in land tenure. The Taskforce attended a conference organised by Brewster Kneen of the Anglican Church. The conference dealt with issues such as the preservation of farm communities and the alienation of land from agriculture. As land cost rises and the return on farming remains low, it becomes difficult for young people to acquire farm land, while seniors count on the appreciated value of the land as a source of retirement income. The conference reported on a number of

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[18] The "Valdez Principles" are a set of ten guidelines for corporate environmental responsibility which corporations are asked to adopt. They were prepared by the Coalition for Environmentally Responsible Economies (CERES), a group of investors, environmental groups, churches, labour unions and others representing $150 billion in invested assets.

efforts to establish land trusts in western Canada, in the State of Wisconsin, and on similar action in Ontario. Philip Creighton continues to represent the Taskforce on a committee studying this complex question.

The Taskforce remains in touch with a number of church-related alternative investment programs. One of the panels at the Responsible Share Ownership Conference focused on alternative investment of pension and other funds.

Papers available from the Taskforce: A Presentation by Peter Chapman, TCCR, to the Social Investment Forum Panel on ENVIRONMENTAL AUDITS AND SHAREHOLDER ACTIVISM, November 17, 1990, 4 pages, $2.00; "Responsibility for Ensuring Protection of the Forest Environment?" A Presentation by Father Ed Sheridan, Jesuit Centre for Social Faith and Justice, to the TCCR CONSULTATION ON MEASURING AND REPORTING CORPORATE FOREST LAND MANAGEMENT PRACTICES, November 22, 1990, 4 pages, $2.00; and "Environmental Ethics and Corporate Management", A Presentation by Moira Hutchinson, TCCR, to the Ontario Professional Foresters Association, February 22, 1991, 4 pages, $2.00.

B. RESPONSIBLE SHARE OWNERSHIP CONFERENCE

This conference, co-sponsored by the Taskforce and the Centre for Corporate Social Performance and Ethics, Faculty of Management, of the University of Toronto, was designed to explore responsible investing in Canada and to attract persons responsible for investment decisions for pension funds. The Conference attracted one hundred participants representing public sector pension funds, unions, church trustees and investment officers, universities and ethical investment practitioners. In addition, a number of interested church people, lawyers, corporate executives, other institutional investors, investment dealers and regulators attended. An impressive roster of speakers from across North America covered the following topics: "Why Investors Must Be Active Shareholders"; "Legal Issues for Trustees and Managers"; "Social Responsibility and Corporate Governance" (a panel on current issues); "Active Shareholdership: A Viable Strategy for Labour"; "Alternative Approaches to Management: Roles of Members and Trustees" (a panel); "Screening for the Ethical Investment (and divestment) of Pension Funds" (a panel); "Alternative Investing" (of pensions and other funds - a panel); "Shareholder Acti... Recent Canadian and

Global Experience" (a panel). With the assistance of a corporate sponsor, the University of Toronto prepared a record of the proceedings of the conference.

This conference not only brought together a significant number of persons responsible for major investment decisions, it stimulated substantial interest, adding to the network of individuals and institutions taking their investment social responsibility seriously.

Copies of the Proceedings of the conference may be ordered from the Centre for Corporate Social Performance and Ethics at 246 Bloor Street West, Toronto, Ontario, M5S 1V4. Permission has been given to reproduce substantial excerpts of the proceedings under certain conditions.

C. CIRCULATION OF SHAREHOLDER PROPOSALS

Rules Governing Circulation

In 1989, the Taskforce submitted a brief to the Ontario Securities Commission regarding a multijurisdictional proposal being examined by the Commission together with the Commission des Valeurs Mobilières du Québec and the United States Securities and Exchange Commission. The concern of the Taskforce was that efforts to harmonise regulations might weaken the protection enjoyed by Canadian shareholders under Securities Exchange Commission regulations, in regard to shareholder proposals.

Examination of the proposal was slow, and having heard nothing since October 1989, the Taskforce re-submitted its brief in the Spring of 1991. As this report is being written, the text of the new arrangements is not available. However, the churches have reason to expect that the arrangements will reduce protection formerly enjoyed because of the application of the Securities and Exchange Commission regulations to Canadian corporations whose shares are listed on American exchanges. For this reason, the Taskforce has re-opened correspondence with the Federal Minister for Consumer and Corporate Affairs in regard to the Canada Business Corporations Act. Review of the Act has been under way for sometime. It is clear that the fundamental interpretation of shareholder opportunity is not satisfactorily defined. The Act (Section 131-5-b) allows management to refuse to circulate a shareholder proposal if "it clearly appears that the proposal is submitted...primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes...."

Management is given the right to decide the purpose of a proposal; and Canadian managements have been far narrower in their interpretations than their American counterparts. If a proposal is rejected, the onus is on the shareholder to take legal action to have it restored. In practice, shareholders are not likely to incur legal cost for an unpredictable result.

While it is clear that corporations cannot be expected to include in the proxy circular proposals dealing with every conceivable ethical or social issue, it is clear that there is need of a better way to protect proxy circulars from irrelevant single issue resolutions than by giving a corporation free hand to accept or reject. The possibility of a neutral third party like the Ontario Securities Commission as arbitrator has some appeal. Clearer definitions in the Act would be helpful.

Three Chartered Banks

Church-related shareholders proposed to file resolutions related to international debt at the Annual General Meeting of the Bank of Montreal, the Bank of Nova Scotia, and the Royal Bank of Canada. A report on the ensuing discussions is contained in the section of the *Annual Report* dealing with international debt (see pages 11-19). In all three cases the banks advised the filers that they would not accept the resolution. The banks gave as a reason for not circulating the churches' resolution in their proxy circulars, Section 65(5)(b) of the Bank Act. This section exempts a proposal from being circulated if it "clearly appears to be submitted by the shareholders primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes". The filers of the resolutions were as follows: for the Bank of Montreal, the Canadian Conference of Catholic Bishops and the Sisters of Saint Ann; for the Bank of Nova Scotia, the Sisters of Charity of Saint Vincent de Paul, the Jesuit Fathers of Upper Canada and the General Synod of the Anglican Church of Canada; for the Royal Bank, the Canadian Conference of Catholic Bishops, the Sisters of Charity of Saint Vincent de Paul, the General Synod of the Anglican Church of Canada, the United Church of Canada and The Pension Fund of the United Church of Canada. In all three cases, the banks' refusal to circulate the proposal led to a management meeting between church representatives and bank officers. In each case, the filers, in consultation with other Taskforce members, agreed to withdraw the shareholder proposal in favour of a formal

statement of the church shareholder position together with a statement of the bank's position circulated in advance of the shareholder meeting and addressed at the meeting.

This is a disturbing development in the area of shareholder proposals. The filers of the proposal believe that international debt is an issue of concern to shareholders because it is a significant aspect of the banks' operations and thus a fit subject for a proposal. Our sister churches in the United States have routinely filed shareholder resolutions on this subject and they have been accepted by American banks. If the provisions of the Bank Act, which are identical to the provisions of the Business Corporations Act, can be interpreted as ruling out these proposals, it is hard to image what kind of shareholder proposal would be accepted and circulated. The regulations are subject to interpretation by management, and the shareholders' only recourse is expensive legal action. It is for these reasons that the churches have opened discussion on the redrafting of the Canada Business Corporations Act referred to earlier.

Some of the bank officers have indicated that they recognise the dilemma and will be considering how to deal with future shareholder proposals. When the law places almost arbitrary discretion in management's hands, management must concern itself with any precedent which may be set. Nevertheless, shareholders are the owners of the corporate capital and make up the reality of the moral person which is the corporation. Their right to express approval or disapproval of corporate action, which may be offensive to their strongly held humanitarian convictions, can hardly be denied as "a general cause" not concerned with the uses of their capital or the business of the bank.

The churches intend to press the banks and other corporations to accept shareholder proposals on significant areas like international lending. Such proposals give shareholders the opportunity to exercise their responsibility when considering the corporation's activities and appointing its auditors and directors. When the proposal is not circulated in the proxy circular, the shareholder's wishes are not recorded by vote but can be known only if the shareholder takes the time to write to the company. The process followed in the 1991 bank annual meetings is no substitute for a shareholder resolution.

D. ETHICAL (GREEN) INVESTMENT AND ETHICAL CONSUMERISM

The Taskforce continues to receive enquiries about ethical mutual funds. The Taskforce has up-dated its 1989 pamphlet providing information about such funds operating in Canada. To assist investors while keeping the examination to a manageable length, two screens were selected for close examination: the environment and the military. It is hoped that the questions and the funds' responses may suggest other questions for investors to raise directly with the funds. The work of Linda Marshall, a volunteer, in gathering the responses to our questionnaire, is gratefully acknowledged.

Another area of growing interest and increasing enquiries is ethical consumption. Organizations are calling for boycotts of various products in order to influence the policy of the manufacturers or distributors. Companies are labelling themselves or their products as "green" or environmentally friendly. The Taskforce has neither the resources nor mandate to provide advisory services in ethical consumption. However, to help persons who are interested, the Taskforce produced a paper, originally drafted by Gary van der Meer, an Anglican representative on the Corporate Governance Committee. "Socially Responsible Shopping" is a brief commentary about ethical consumption listing accessible sources of information.

"Canadian Ethical Mutual Funds: An Examination", May 1991, 22 pages, $4.00, is available from the Taskforce. A list of ethical and alternative investment funds and advisory services with a summary article about responsible investment (6 pages), and a paper on "Socially Responsible Shopping", May 1991, 3 pages, are also available from the Taskforce.

E. SECRET BALLOT

The confidentiality of shareholder votes has not been a priority in the work of the Taskforce since Canadian chartered banks adopted a secret ballot many years ago. The matter frequently arises on the proxy circulars of American corporations, and shareholder resolutions calling for such practice receive substantial support. American churches and other institutions report that a number of corporations have agreed to confidential voting procedures at annual meetings.

The issue is important because, when faced with a vote for or against management, some shareholders need to be confident that they will not suffer any untoward repercussions. In fact, most corporations turn over the handling of such ballots to scrutineers, and the corporation's staff do not see the ballots except in extraordinary circumstances. However, without an avowed confidential voting policy, the shareholder who may be an employee or a person in some special relationship to an officer or director has no assurance and may feel unnecessary discomfort in voting against management.

The United Church of Canada's Treasury Department did a brief survey of proxy circulars received in the spring of 1991 to see how many made reference to a confidential voting policy. A surprisingly low number of Canadian corporations acknowledged such a policy in their proxy circular. The Taskforce has agreed to explore this question with some Canadian corporations during 1991-1992.

F. OUTSIDE DIRECTORS

A recent development in corporate governance discussions is the pressure for an increased number of external directors on the boards of corporations. The consensus seems to be that outside directors enhance the independence of a board's decisions. Doubtless some of this concern is the result of increasing focus on the environment, suggesting the presence of an environmentalist on the board or the conduct of an independent, external audit, reporting to a sub-committee of the board.

At present, Canadian Churches have no policy in regard to the composition of boards of directors. However, information is being gathered by the Taskforce and some research by volunteers has been initiated to help church shareholders vote on board composition and to help churches set relevant policy.

1990/91 MEMBERSHIP AND REPRESENTATIVES

General Synod of the Anglican Church of Canada
- Rev. Allen Box*, Public Social Responsibility Unit
- Mr. Philip Creighton, F.C.A., Public Social Responsibility Unit
- Rev. Peter Hamel, Consultant, National Affairs
- Ms. Elsa Musa, Division of World Mission
- Mr. Gary van der Meer, Public Social Responsibility Unit

Canadian Conference of Catholic Bishops
- Dr. Tony Clarke*, Co-Director (Anglophone), Social Affairs Office

Catholic Church Extension Society of Canada
- Fr. Barry McGrory

Evangelical Lutheran Church in Canada
- Rev. David Pfrimmer*, Director, Office for Public Policy and Governmental Affairs, Eastern Synod

Grey Sisters of the Immaculate Conception
- Sr. Helen Leeney

Jesuit Fathers of Upper Canada
- Fr. Ed Sheridan*, Jesuit Centre for Social Faith and Justice

Oblates of Mary Immaculate, St. Paul's Province, B.C.
- Ms. Mary Reilly, O.M.I.

Oblates of Mary Immaculate, Vital Grandin Centre, Alta.
- Fr. Colin Levangie, O.M.I.
- Fr. Rudy Mumm, O.M.I.

Presbyterian Church in Canada
- Rev. Dr. Raymond Hodgson*, Program Director, Church and Society
- Mr. Warren Bailie

Redemptorist Fathers
- Fr. Paul Hansen, C.Ss.R.
- Fr. Frank Maloney, C.Ss.R.

Religious Hospitallers of St. Joseph
- Sr. Joan Kalchbrenner

Scarboro Foreign Mission Society
- Fr. Daniel Gennarelli, S.F.M.*

Sisterhood of St. John the Divine
- Sr. Janis Mary, SSJD*

Sisters of Charity of the Immaculate Conception
- Sr. Celene Hurley, SCIC

Sisters of Charity of Mount St. Vincent, Halifax
- Sr. Thérèse Moore

Sisters of the Holy Names of Jesus and Mary
- Sr. Virginia Marie St. Louis

Sisters of Mercy Generalate
- Sr. Marion Collins, R.S.M. (from January 1991)

Sisters of St. Joseph of the Diocese of London
- Sr. Elizabeth Sexton

Sisters of St. Joseph of Toronto
- Sr. Jean Gove

Les Soeurs de Sainte-Anne
- Sr. Kathleen Cyr*

United Church of Canada
Rev. Fred Bayliss, General Secretary, Division of World Outreach
Mr. Bill Davis*, General Secretary, Division of Finance (to February 1991)
Mr. David Hallman*, Staff Officer, Energy & Environment
Ms. Melanie Macdonald, General Secretary, Division of Finance (from March 1991)
Mr. John Page, Assistant Treasurer
Mr. Ken Ward*, Treasurer
Ursulines of Chatham Union
Sr. Theresa Mahoney, o.s.u.

Consultative Membership:
Canadian University Service Overseas (CUSO)
Mr. Ken Shipley
National Board, Young Women's Christian Association
Ms. Sally Ballingall

*Executive Committee 1990-91
Chair: Hodgson
Vice-Chair: Pfrimmer
Treasurer: Ward
Chair, Sub-Committee: Corporate Governance - Box
Chair, Sub-Committee: Domestic Issues - Hallman
Chair, Sub-Committee: International Issues - Gennarelli
Members-at-large: Clarke, Cyr, Janis Mary, Sheridan
Staff Liaison: Davis (to February 1991), Hallman (from May 1991)

Staff:
Ms. Grace Brubacher, Administrative Assistant
Ms. May Bothwell, Clerical Assistant
Mr. Peter Chapman, contract research, part-time
Mr. Bill Davis, Coordinator (from March 1991)
Ms. Moira Hutchinson, Coordinator (to June 1991)
Ms. Renate Pratt, contract research, part-time (to November 1990)

TASKFORCE ON THE CHURCHES AND CORPORATE RESPONSIBILITY
(a partnership of Christian Churches in Canada)

Balance sheet - general operations
31 December 1990

ASSETS

	1990	1989
Cash	$22,425	$25,805
Accounts receivable	200	1,000
Prepaid postage	1,600	2,000
	$24,225	$28,805

LIABILITIES AND FUND BALANCE

Accounts payable	$ 1,365	$ 1,000
Deferred contributions	11,500	2,500
	$12,865	$ 3,500
Fund balance	11,360	25,305
	$24,225	$28,805

Balance sheet - trust account

ASSETS

	1990	1989
Cash	$ 5,806	$ 7,340

LIABILITIES AND FUND BALANCE

Unexpended project funds	$ 2,709	$ 6,802
Fund balance	3,097	538
	$ 5,806	$7,340

Approved on behalf of the Executive Committee

Ray Hodgson, Chairperson
Ken Ward, Treasurer

TASKFORCE ON THE CHURCHES AND CORPORATE RESPONSIBILITY

Statement of general operations
for the year ending 31 December 1990

Revenue	**1990**	**1989**
Contributions		
Anglican Church of Canada	$33,269	$31,460
Can. Conference of Catholic Bishops	14,737	13,995
Evangelical Lutheran Church in Canada	4,216	4,054
Presbyterian Church in Canada	9,257	9,000
Roman Catholic religious orders	37,645	33,340
United Church of Canada	49,000	49,500
Other	4,320	4,595
	$152,444	$145,944
Subscriptions and literature sales	3,839	2,289
Interest	3,680	3,058
	$159,963	$151,291
Expense		
Salaries and benefits	$105,558	$111,175
Travel and meetings	3,723	2,195
Rent	3,000	3,000
Office	16,013	15,797
Duplicating and printing	9,564	7,796
Accounting	3,800	3,600
Research [note 4]	31,483	7,533
Legal	-	360
Miscellaneous	767	540
	$173,908	$151,996
Excess of expense over revenue	$(13,945)	$(705)
Fund balance, at beginning of year	25,305	26,010
Fund balance, at end of year	$ 11,360	$ 25,305

TASKFORCE ON THE CHURCHES AND CORPORATE RESPONSIBILITY

Statement of operations - trust account
for the year ending 31 December 1990

	1990	1989
Revenue		
Unexpended project funds, at beginning of year	$ 6,802	$ 3,000
Special contributions from members	2,000	13,183
Less, unexpended project funds, at end of year	(2,709)	(6,802)
	$ 6,093	$ 9,381
Grants	7,000	1,102
Responsible share-ownership seminar registration	11,272	-
Interest earned	1,235	538
Transfer from general operations [note 4]	5,308	340
	$30,908	$11,271
Expense		
Research	$14,940	$10,817
Responsible share-ownership seminar costs	13,409	-
	$28,349	$10,817
Excess of revenue over expense	$ 2,559	$ 454
Fund balance, at beginning of year	538	84
Fund balance, at end of year	$ 3,097	$ 538

TASKFORCE ON THE CHURCHES AND CORPORATE RESPONSIBILITY

Notes to financial statements
year ending 31 December 1990

1. Purpose

The Taskforce on the Churches and Corporate Responsibility assists the participating churches and agencies to address social and moral issues relating to the responsibility of corporations, through the acquiring and sharing of information and research, and in developing strategies to raise public awareness about issues of social injustice and corporate behaviour. The Taskforce serves as a facilitating and co-ordinating body to assist the churches to speak knowledgeably and with integrity as they proclaim the witness of the Lord to the economic structures of the day in Canada and abroad.

2. Accounting policies

The Taskforce employs generally accepted accounting principles appropriate for non-profit enterprise. The major principles are discussed below.

Basis of accounting

The Taskforce accounts for revenue recognition and the matching of expense on the accrual basis. Expenses and revenues are reflected in the year in which they are incurred or earned regardless of when the related payment is made or received.

Equipment

The Taskforce charges equipment to expense in the year of purchase.

Statement of changes in financial position

The Taskforce has not provided a statement of changes in financial position for the year ending 31 December 1990 because it believes that the changes in financial position are disclosed adequately by its statement of operations.

Re-classification of comparative figures

Certain comparative figures have been re-classified in order to conform to the current year's disclosure.

3. Related party

During the year the Taskforce paid $3,800 (1989, $3,600) to the United Church of Canada, a member, for controllership and other accounting and record-keeping services.

4. Transfers to trust account

Included in research is $5,308 transferred to the trust account to discharge the balance of cost arising from the forestry consultation project. The comparable 1989 transfer is $340.

AUDITOR'S REPORT

To the members of the Taskforce on the Churches and Corporate Responsibility:

I have audited the balance sheets, general operations and trust account, of the Taskforce on the Churches and Corporate Responsibility as at 31 December 1990 and the statement of general operations and the statement of operations for the trust account for the year then ended. These financial statements are the responsibility of the Taskforce's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Taskforce as at 31 December 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto
23 October 1991

Philip Creighton
Chartered Accountant